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THREE INTERNATIONAL  
EPISODES

## THE PATTEN FOUNDATION

*Mr. Will Patten of Indianapolis (A.B., Indiana University, 1893) made in 1931 a gift for the establishment of the Patten Foundation at his Alma Mater. Under the terms of this gift, which became available upon the death of Mr. Patten (May 3, 1936), there is to be chosen each year a Visiting Professor who is to be in residence several weeks during the year. The purpose of this prescription is to provide an opportunity for members and friends of the University to enjoy the privilege and advantage of personal acquaintance with the Visiting Professor. The Visiting Professor for the Patten Foundation in 1945-1946 was*

HERBERT FEIS

*The Patten Foundation Lectures for 1945-1946 have been developed into this book.*

# *Seen from E. A.*



## THREE INTERNATIONAL EPISODES

BY  
HERBERT FEIS



NEW YORK: ALFRED A. KNOPF

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FIRST EDITION



IN MEMORY OF  
HORACE G. WHITE, JR.  
WHO SHARED IN THIS WORK



1-16-48- Secret - this cap.



## + PREFACE +

*These are narratives of three significant episodes in the American search for national security before the war. They are offered as dramas of occurrence, as tales in which all the elements that shaped American behavior displayed themselves clearly. These were many. Economic conditions, popular dreams and fears, the self-seeking activities of organized groups, hues of faith and mistrust in our relationship with other countries, the nature of the individuals that held public office—all of these entered into the events recounted. How eagerly I sought for some simple explanation of what took place. But I could find none. I could find only a story which should not be permitted to slip into the past, unscrubbed by some rough, though not ruthless brush.*

*As Adviser on International Economic Affairs in the State Department, I was in an unusual position to guess at, even if not to know, what happened and why.*

*But when I set about trying to write these narratives, I found that I no longer felt in the center of them. With the passage of time, it seemed to be no longer myself who remembered, but some distant relative of myself. He was in the projection booth; I had become part of the audience. This accounts for the use of the third-person manner of telling the*

*story. It seemed natural, so I used it. In the same way, it seemed more natural to refer to most of the Americans who appear in the narrative by their official titles, rather than by their given names. The nature of each, as the narratives show, turned out to be of great consequence. But it was the fact that they held office that made it so.*

*In the making of history, public office is far more than a mask for the individual. It is a scepter and a sphere of power. Seen from in front, the procession—which is history—is made up of individuals who differ greatly in their personal feelings and vision. For full appreciation of the procession, it is necessary to station observers at many different points along the route. This is the report of one of them.*

HERBERT FEIS

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EPISODE NUMBER ONE

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*Rubber Before Pearl Harbor*



# I

## THE YEARS OF INCANTATION



THE years before 1940, when France fell and the safety of our world became clearly exposed, were years of incantation. The American people watched the aggressive surge of the Axis nations with despondent foreboding. They hoped the Axis might be satisfied with the first victories; they prayed it might wither from within. They pleaded and reasoned with the dictators in notes that grew longer and longer—without expressing clear resolution. As each and every one of these incantations failed, the dark weight that rested on their spirit grew. Reluctantly they set about the task of increasing and equipping the American navy, army, and air force. With a deep sigh, they put greater energy into the duties assigned to admirals and generals, and new meaning into their salutes. They called forth their young men to teach them to use the weapons of war. They began to turn their factories into arsenals.

All these military preparations went forward, however, in a haze of obscurity. Only a few Americans were convinced that the United States was destined to confront an inescapable issue—threatening its security and independence. They had decided to turn their backs on the affairs of Europe and Asia. Disappointment that victory in the last war did not, of itself, bring lasting international harmony was all the stronger since the wish was so earnest. The shock of encounter with foreign antagonisms, the

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glimpse of the long and stony road to international order had made them yearn for isolation. This attitude affected the gait of our military march. Even while greater military appropriations were granted, most Americans retained the belief that we could and should safely and decently stay "out of war." Thus, until war was almost upon us, the expansion of our military establishment was customarily justified and approved on the theory that this would enable us the better to remain at peace.

This line of reasoning was congenial to our desires. But it failed fully to stir the American people from their uneasy lethargy. The dangers against which the effort was directed continued to seem conjectural and remote. The program of military preparation suffered. The people gave only such energy to it as could be spared from their ordinary tasks. It went forward on a schedule set by the belief that the peril would await our convenience.

This attitude showed itself clearly in the program to accumulate an emergency stock of rubber before Pearl Harbor. The United States discovered, in the middle of the war, that a shortage of rubber imperilled its combat and production plans. The Baruch Committee was later to report that, of all raw material problems, this presented "the greatest threat to the safety of our nation and the success of the Allies cause." Supplies had to be reserved for most essential war uses and stretched out while the nation strained itself to create an immense synthetic rubber industry. Labor, machinery, and materials had to be drawn away from other parts of the war effort in order to make up for past neglect.

How and why did this situation come about? This is an analytical narrative of the effort made in the years before Pearl Harbor to secure rubber, of the circumstances and

ideas that shaped that effort, the methods used, the difficulties met, and the results obtained. It deals only with the main line of activity in familiar rubber territory. The task of reporting upon frontier operations (as in Indo-China) and expeditions into new territory (as in the Amazon Valley) is left to others who participated in them.

In order fairly to judge the event recounted, it is essential to bear in mind the image of American purpose and policy that was contemporaneously in the mind of the participants. At the beginning, the American quest for rubber did not appear to be either vital or urgent. Its probable purpose, until the Far Eastern crisis became intense, was construed both at home and abroad as a wish to avert disturbance in our everyday affairs. Or perhaps, if the Axis should win, to facilitate a quick expansion of our fighting forces. The American attitude towards the struggles that were taking shape in Europe and Asia caused the rubber program to be regarded merely as a step whereby the United States sought the more comfortably to maintain its isolation.

But in 1940 perception grew that this effort might turn out to serve another purpose. The United States began to contribute greatly to the resistance against the Axis. It interposed its will against Axis victory and aided the British Empire and later the USSR. In doing so, the obvious risk of having to fight was accepted. The American people knew this; so did the nations we helped. Thus, the meaning and urgency of the search for rubber changed in men's eyes. It was seen to be an element in a greater program of mutual assistance among the countries that later were to form the United Nations.

## II

### RUBBER BY PERSUASION



UNTIL the United States was almost at war, the task of obtaining an adequate reserve supply of rubber and other vital raw materials was left to the self-generated exertions of a few enthusiasts—or so it seemed to them. As far as they could tell, most of the American people were as sure that they would always have rubber to ride upon as they were of the ice cubes in the refrigerator.

The enthusiasts were scattered among the government departments, civilian and military. In 1936, they organized themselves, with the casual consent of their superiors, into an Interdepartmental Committee on Strategic Materials. The Economic Adviser of the State Department was chairman of this group.

To them the statistics of rubber supply became an index of American security. They argued loudly that a country's foreign policy should not be stretched beyond its rubber supply. They beat their breasts and nagged their superiors. Gradually some friends were recruited in the press—to aid in turning their private conviction into public clamor. Now and again a convert was made among officials in places of top authority. They fought and bored (in both senses) to win recognition of their aim—till Japanese armies were camping under the rubber trees.

At first they had the notion that it would be easy to

accumulate rubber, along with the other strategic materials, in one comprehensive program. They had begun as early as 1935 to recommend and seek support for legislation that would provide authority and funds to acquire adequate reserve stocks of *all* of the many such materials. But the discouragements they met at both ends of Pennsylvania Avenue taught them not to expect its quick accomplishment on a scale that would take care of American needs for rubber. Two facts made that conclusion unavoidable.

One fact was that the supply of rubber from the East was effectively controlled by the producers. This meant that a sufficient amount could be obtained for reserve stock only if some buyer entered into long-term engagements with the producers on terms acceptable to them. No such buyer was in sight.

The other fact was the cost of acquisition. An adequate reserve stock of rubber, according to their calculations, would cost some hundreds of millions of dollars. The largest total sum that they were permitted to hope for, even by their supporters, was one hundred million dollars—to pay for the purchase of *all* critical and strategic materials; and their list of such materials grew longer and longer, and their estimates of quantities required, greater and greater. This sum, it may be pointed out in passing, is all that Congress was later (1939–40) asked to authorize—with the idea that it would be spent over a period of four years. Out of this amount costs of transport, storage, and rotation were to be met, as well as cost of purchase.

But this legislation was passed only in June, 1939, shortly before the outbreak of the war in Europe. Its advocates, in the years that elapsed since they first had proposed such action and prepared drafts, became as familiar

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as a young author with rejection slips.<sup>1</sup> They came to accept the skepticism outside of their own circle as settled, until the actual storm was upon us. Until then, except for an occasional few millions smuggled into navy or army appropriation bills, they could secure no funds to buy any strategic materials, and none of this was available for rubber. They were compelled to invent opportunities and ways of *coaxing* it into the country.

<sup>1</sup> A typical extract from one of their main reports presented in December 1938 read:

"It is urgent that the accumulation of necessary reserves of a number of strategic materials be begun without delay. . . .

"It is essential that provision be made for immediate direct purchase of reserve supplies of at least the most important strategic materials. . . .

"In addition to the early adoption of legislation . . . provision should be made as soon as possible for the appropriations which would be authorized by such legislation."



### III

## WE ASK FOR RUBBER IN PAYMENT OF OLD DEBTS AND ARE REFUSED



THE first attempt made to secure a reserve stock of rubber was in the form of a contribution on war debt account. In this way, it was thought, the last war might yield us protection against or strength in the next. Half or more of the crude rubber that the United States imported came from the Malay States and other British territories in the East. Production in these territories was slack and below the maximum possible. While the remaining strands of fellowship between the Allies of the last war were being frayed away in quarrelsome bitterness, the thought arose that some part of the debt—and past friendship with it—might be salvaged by arranging for a payment in goods, not cash. The idea was that the British government should buy a large amount of rubber for sterling and deliver it to this government as an emergency reserve. Properly arranged, this operation might have enabled Britain to maintain some measure of debt payment without draining its slim supplies of dollar exchange; the rubber producers would continue their commercial sales of rubber to the United States for dollars.

The idea seemed to have multiple attractions. The United States would secure a reserve stock of national importance; the British government would have an opportunity to demonstrate that it was not discarding the debts

—even though it might believe them to be unjust. Such hopes went into the insertion of a laconic new clause in the statement of accounts due that was presented to the British and other governments early in 1934, just as they were preparing their final excuses for their final default. It read that, “no proposal has ever been presented to this government looking towards payment in kind to an extent that might be found mutually practicable or agreeable.” A clause, variously phrased but always the same in meaning, was thereafter included in the successive notices that the State Department sent each half-year to the debtor governments.

It fell to the lot of the Economic Adviser to explain to the officials of the British Embassy in Washington what definite proposals were in mind. Conversations were devoted to the attempt to prove that the suggested deliveries of rubber (and tin) would not injure British commerce. Contemporary events were cited to warn that another crisis might come which neither Great Britain nor the United States could meet alone, and that Britain would be shortsighted not to take this means of rewarding American participation in the last war. The Economic Adviser received the impression that the tall and steadfast Scotsman, who represented His Majesty’s government at the time, was at least half convinced. But when the answers came from London they were always skimming refusals. The memoranda in which the British authorities phrased their refusals did not enter into a discussion of the political or defense aims that so largely inspired the proposal advanced. They merely asserted that the economic objections to cash payments on the debt applied with equal force to deliveries in kind. The authors of the replies, it is kind to think, were technical officials whose minds were

not authorized to roam beyond financial bounds. No hint appears in the correspondence of foresight that in a few years the American reserve stocks of rubber would be essential to the defense of the British Isles.

The proposal seemed both so promising and practical that it was given up only with reluctance. By the time Great Britain had awakened to the danger and probability of war with Germany the whole question of any form of payment on the old war debt account was thoroughly cold. It had taken its place in the refuse pile of history—where the unadjusted differences between nations rot out of sight and memory but still discolor the ground. Neither government could have been moved to approach it.

## IV

### COULD PRIVATE STOCKS BE MADE TO SERVE ?



SO rubber was not to be had for nothing. But the establishment of that fact did not enable the enthusiasts to unclasp the public purse. Their proposals promised no jobs for the unemployed, and only expenditure that did so was given attention.

The enthusiasts found themselves compelled to seek their end by a route commended in the reports issued by the Army and Navy Munitions Board during this period—the maintenance of large stocks by the private rubber-using industry within the United States. It was a devious route, which could achieve the desired ending only by accident. The government had no power to compel private industry to acquire large stocks of rubber or to retain them. The size of the stocks in existence at any time was determined by the decisions of two groups—the foreign producers who controlled the supply of rubber and the American rubber industry which bought it.

The Economic Adviser found himself with the assignment, stretching over the years, of trying to influence and fuse the behavior of these two groups. One aspect of the task was to bring the producers who controlled supply to admit the commercial acceptability of having large stocks in American hands. The other was to persuade the American industry that stocks large enough to take care of our

needs in times of crisis could be obtained and held without ruinous risk.

It was not enough to persuade each of these groups independently to aid our purpose and conduct its business activity helpfully. It was necessary to induce them to work together with scrupulous fairness to achieve an end for which neither felt responsible. For otherwise, each could divert to its own business advantage any concession made by the other. If the American industry in response to our pleas greatly increased its volume of buying, the producers who controlled supply might use this favorable turn to extract higher prices. If the producers in response to our pleas offered more rubber for sale, the American industry might allow prices to fall before it bought. The task was to transmute a business tug of war between producer and buyer into a joint effort.

## V

# THE SUPPLY OF CRUDE RUBBER WAS UNDER STRICT FOREIGN CONTROL



THE supply of rubber was controlled by the producing countries in accordance with the terms of a very effective instrument. The purposes of this Agreement, as stated therein, were, "to regulate the production and export of rubber in and from producing countries with the object of keeping world stocks at a normal figure and adjusting in an orderly manner supply to demand, while at the same time making available all the rubber that may be required, and maintaining a fair and equitable price level that will be reasonably remunerative to efficient producers." The recognition accorded the interest of the consumers in this statement, was, as will be recounted later, granted to satisfy the American government.

The Agreement (signed in May 1934, and renewed with minor amendments in October 1938) was a treaty negotiated between the governments of the United Kingdom, the Netherlands, France, India, and Siam. The participants pledged themselves "to take such measures as may be necessary to maintain and enforce in their respective territories . . . the regulation and control of the production, export, and import of rubber as laid down in . . . this Agreement."

An International Rubber Regulation Committee (which

will be hereafter designated by the initials IRRC) was established to manage the business of control. An annual quantity (called a *basic quota*) of production was specified for each producing territory. These basic quotas were derived mainly from estimates of potential production.<sup>2</sup>

The IRRC decided at its periodical meetings the amount of rubber to be made available—in the form of a designated percentage of the basic quota. This percentage figure came to be known throughout the world of rubber simply as “the quota.”<sup>3</sup>

This percentage quota figure, which was set in advance for each quarterly period of the year, became the regulator of the world's rubber supply. It determined how many rubber trees on the large estates were tapped and how fully, how many hours thousands of natives spent in their small groves, how many bales of rubber moved to the ports of Singapore, Batavia, Ceylon, and smaller harbors of the Pacific. It determined how many tons buyers

<sup>2</sup>These quotas were specified in the original agreement of 1934—which provided for a gradual rise each successive year. When the Agreement was renewed in 1938 the basic quotas were increased by about 15 per cent.

The rising scale of the basic quantities (from a total in all controlled areas from about 1.1 million long tons in 1935 to over 1.5 million in 1940) was a recognition *first* that recently planted land would come into full production during the life of the agreement; and *second* of the probability of a gradual increase in world demand.

<sup>3</sup>The governing authorities of each territory distributed permission to produce—up to the sanctioned total—among individual producers, in the form of export rights or coupons. The administrative arrangements for controlling and sharing out production and exports were different in each area.

A comprehensive account of the terms and methods of operation of the rubber regulation scheme may be found in *World Rubber and Its Regulation* by K. E. Knorr.

could bid for, how much rubber the United States could pile up in warehouses. The Committee settled as well, under the terms of the Agreement, the size of stocks held within the growing regions and the amount of replanting and new planting. These governed the volume of supply in the more distant future.

Malaya and the Netherlands East Indies each had four members on the IRRC: Ceylon—two; French Indo-China—two; India—one; Burma—one; North Borneo—one; Sarawak—one; Siam—one; a total of seventeen. The members were selected by governments and were ordinarily government officials, or former officials, concerned with the rubber-producing activities of the territories they represented. The Chairman was a senior member of the British Colonial Office. The meetings were usually held in London. Experience revealed that the decisions of the Committee were ultimately controlled by the members appointed directly or indirectly by the governments at London and The Hague.

The American government had thrust its views upon the authors of the original agreement in 1934—stimulated by an angering experience with an earlier scheme for the control of rubber supply—known as the Stevenson Plan. The managers of this plan had first so pinched the supply of rubber that its price rose enormously. They had then lost control of supply and after a grand crash had abandoned the scheme. The need to take note of the new program of control seemed all the greater because it—in contrast to the earlier scheme—included *all* producing areas of importance.

The foreign representatives that drew up the Agreement of 1934 had their thoughts riveted upon prosperity for the rubber-producing regions. They devised so that



the estates and groves planted in the jungle lands of the Southwest Pacific might flourish, that the workers and managers would have better wages, that the stockholders in England and Holland would avoid loss through overproduction and instead secure a good return. In many of the areas a large and growing part of the rubber was produced by native owners and growers—about 45 per cent of the total produced in the late thirties in Southeast Asia; and in two territories, Siam and Sarawak, almost all the industry was native. Therefore, by assuring a constant, favorable market for rubber the colonial governments could feel that they were also protecting the economic welfare of the native peoples they governed. With concerted support of their governments, the estate owners, the foreign managers, the native owners and workers in the dank heat would present a united front against the distant world of customers.

The communications sent by the American government in regard to the terms of the Agreement were accorded courteous scrutiny by the drafters. But they did not bring about any essential changes in the scheme of control that the producers contrived and submitted.<sup>4</sup> The

<sup>4</sup> When first the American government asked for assurances from the British government its requests were deferred on the ground that the British government did not have official cognizance of the discussions that were under way, and that it would not be in a position to do anything until an agreement had been signed by the producers and referred to the government. The American government was not satisfied that this was the fact, and in another sense was not satisfied if it were the fact. The relationship between the producers, local governments, and the British and Dutch governments during the period of development of the Agreement is described in the book which the International Rubber Regulation Committee published in 1944 under the title of *The History of Rubber Regulation 1934-43*, p. 44 as follows:

“The British and Dutch governments, without whose final as-

American government urged that the participants should obligate themselves to make available all the rubber that might be required at some reasonable maximum price. This was not judged practical, and it may well not have been. The authors of the plan conceded the purpose of the American request by inserting into the preamble a clause that might be construed as an obligation to maintain a "fair and equitable price level." The American government later found this clause useful in justifying its requests for a greater supply of rubber.

The American government also asked that representatives of the consumers be given an effective voice in the decisions of the IRRC. No acceptable way to arrange this was found. To grant consumers a veto power over the decisions of the Committee would have placed them in a position to dictate to the producers without sharing in responsibility. Even to grant them any substantial voting voice might have placed too great a strain on the working unity of the Committee. Or so it was judged by the watchful men who drew up the plan, for the subject was not explored as fully as it might have been. It was arranged that representatives of the consumers should be

sent no scheme could be applied, were kept advised of the course of negotiations and gave valuable assistance and guidance where it was required. As soon as it was evident that real progress was being made in the crucial matter of quotas (as between the producing territories), the British Secretary of State for the Colonies suggested that a plan for the practicable administration of the scheme in British territories should be drawn up for the early consideration of Colonial governments.

"Presently the British government was persuaded to give assurance that representatives of the consumers would be given reasonable and continuing opportunity to present their views regarding the plan before final decisions were taken. This was done mainly through memoranda which the State Department transmitted through the Foreign Office."

given a good chance to present their views, advice, and requests to the Committee in advance of decisions.

The State Department did not feel itself in a position to insist upon fuller recognition of the fact that the United States bought more than half of the world's rubber production. For neither the American government nor industry was ready to assume any reciprocal risks or obligations. The Department revealed its uneasiness in the nature of the statement made to the press when the Agreement was announced—a dry and watchful expression of concern lest the plan operate as a monopoly. Ever thereafter it had to plead for a loosening of the thongs. The Economic Adviser wondered what Houdini would have done if confined by an administrative committee, not merely by handcuffs and iron bars.

## VI

### THE AMERICAN GOVERNMENT GAINS THE RIGHT TO BE HEARD



THE American government had to decide what its relations with the IRRC would be. To assume a direct part in the operations of the Committee seemed ill-advised. Our representative would not have any power, only a chance to persuade those who did. Further, the government did not wish to feel curbed in its freedom to carry its defense of American interests, if it should prove necessary, to the commanding authorities of the British and Dutch governments. Official participation in the Committee's work might make such action awkward or offensive.

Still, it seemed best that some spokesman for the American consumers should have intimate access to the Committee. Close association of producer with user could conceivably lead to such fair mutual understanding that the control plan would evolve into a genuine co-operative arrangement. Rubber had once before aroused American resentment against an alien monopoly; perhaps, this time, the terms of trade could be settled by friendly understanding. The working ties of fortune between the rubber producer and the American user were to the imaginative mind close; could they be made so in fact?

It was decided to turn over the representation of the American consumers within the IRRC to the Rubber Manufacturer's Association. An understanding with that

group was reached that the individual selected for the task would maintain close touch with the State Department and consult with it on all important matters. The active representative during most of the period was a saturnine man from Maine with a scornful opinion of the government whose views were sometimes imposed upon him. He was a man of patience, however, who worked hard to procure rubber for Americans on fair terms; gradually he became tinctured with the outlook of the enthusiasts and with an air of irony become their advocate in business circles.

In the years before 1940 the American government was compelled to dispute not only decisions of the IRRC but also its authority. It insisted that the decisions of the Committee were of public interest, and that the British and Dutch governments must accept responsibility for the outcome of an agreement which they sired and sanctioned. The members of the IRRC, however, were disposed to feel themselves entitled to be left alone in the management of what they viewed as a matter of business. They had a most comfortable arrangement and did not want to be disturbed; besides they were sure they knew their business better than any outsider, especially any foreign government, could. To what extent this attitude was due to the resentment of its supercilious Chairman (who was frozen into the higher ranges of the British Colonial Office) at the invasion of what he considered his well-secured domain, the Economic Adviser could never make up his mind.<sup>5</sup> Certainly our Embassy in London had at

<sup>5</sup> Sir John Campbell was appointed to the Committee, as voting representative for Malaya, by the Secretary of State for the Colonies. The voting representative of the Netherlands East Indies was an official of the Dutch Colonial Office similarly appointed by the head of that branch of the government.

the beginning to combat his dour view that the IRRC, as an international body charged with rubber control, should be permitted to operate without external pressure. The Economic Adviser, as he read the early reports sent by the Embassy could sense the cold disapproval encountered. For in 1933 when he had pleaded for the American users of tin before another group over which the same official presided, he had been made to feel like a protesting holder of ten shares of stock in a meeting of American corporate directors.

The right of the American government to intervene in the affairs of the IRRC was the subject of a main engagement in February 1937. The Foreign Office was asked by the State Department to amend both the control scheme and the principles by which the Committee seemed to be guiding its operation. Its first response was a renewal of the invitation for a representative of the American government to take part in the meetings of the Committee. This was accompanied by an explanation that only the British delegates on the Committee were under the control of the British government, and hence its power to influence the Committee was limited. The American government could not accept this version of the situation. It pointed out that the governments of the producing areas had authorized the Agreement (which was the mandate under which the IRRC operated), that it was embodied in a Treaty, and that its operation was made possible by laws which these governments enacted and enforced. It cited also the fact that the members of the Committee were selected by, and subject to dismissal by, their governments.

The British government rather ruefully acknowledged arguments and presently the Dutch government did the

same. They admitted that they were answerable for the results of the Agreement. They admitted the right of the American government to ask that they supervene when necessary to correct the decisions of the Committee. Thereafter both governments came to accept our complaints as a natural aspect of the control plan and even to foresee them. The members of the IRRG, in turn, grew accustomed to their impact—despite subdued complaint that they were being forced to work while 4.7 guns were kept leveled at heads. They proved themselves seasoned business warriors, not easily scared by the mere display of diplomatic artillery. They did not budge until the shells landed.

The enthusiasts tried incessantly to persuade or compel this group to be more bold and generous in supplying the world's demand for rubber. It inspired the American consumer representative that met with the Committee to fight for increases of supply; it prepared justifying studies for our claims and forced them upon the Committee's attention; it repeatedly sought and secured the aid of the British and Dutch governments to cause the Committee to be responsive. As the American wish for rubber gradually turned into frantic anxiety, the demands became ever more insistent and impatient.

The enthusiasts' longing that there should be more rubber in the United States produced a brisk and argumentative correspondence. Memoranda regarding costs, prices, stocks, demand, and supply became the weapons of advocacy—and there was no control over their production. A few of the instances, out of the long record, in which the dispute became aroused and significant will shortly be recounted. In judging what occurred, American readers must bear in mind: —

First, that there was alert doubt as regards the reason why the American government devoted so much attention to the size of stocks. Was it not, in part, because of a wish to destroy the control scheme, rather than genuine anxiety over perils thought to be remote?

Second, that the American industry was unwilling to obligate itself to buy settled amounts of future rubber production or to maintain any designated level of stocks. Thus the claims addressed to producers had to be based only on pleas of business fairness and political foresight—not on clear reciprocal obligation.

Third, that in the minds of the rubber producers, buyers were concerned only with their immediate business advantage.

These doubts could persist the more easily because both the American industry and the American government insisted up to 1940 upon complete freedom to buy rubber only when, and in such amounts, as they wished. The action of the IRRC becomes more understandable, though still unjustified, when placed alongside those of the American industry.



## VII

### PRIVATE STOCKS FALL FAR BELOW OUR NEED



THE American rubber-using industry was accustomed to hold stocks of crude rubber of a size that seemed impressive before the dimensions of modern warfare became evident. These stocks were protection against failure of supply or sudden price advance.

Each manufacturer acted more or less independently of the others in deciding how large a stock to keep. But all had absorbed an enduring sense of caution. The average price of rubber in New York had been 37.8 cents per pound in 1927, 20.5 cents per pound in 1929; during the worst depression year of 1932 it had fallen as low as 3.5 cents. Immense losses had been suffered; and a warning wish had been born to avoid risking the fate of a business upon the fluctuations in price of its raw material.

During the early thirties, stocks grew very large as a consequence of business circumstance. Rubber was to be bought cheaply, and the depression prolonged itself beyond expectation. During 1932-5 the stocks held averaged about 340,000 tons, which was roughly nine months' supply at the rate of use during these years. But the industry did not believe so large a reserve necessary. It felt itself safe, from a business point of view, with a far smaller amount.

The Economic Adviser learned that the rules followed

by the industry in its buying policy were vague and fluid. Talks that prolonged the luncheon hour instructed him in regard to the impulses which shaped decision. The only two conclusions he could arrive at, even by the closest inspection of the ashes strewn upon the table, were discomforting. The industry could not—did not feel it possible to—bet on far-off possibilities. And second, that there was no natural economic relationship between business calculation and the American need for an emergency stock of rubber. In fact, there were clues to the probability that stocks would be smaller than usual in a time of emergency. The conclusion flared out of his observation brightly—that it was unsafe to rely on private stocks.

This set off the enthusiasts upon a restless search for a more reliable basis for their program. But until it could be found, they had to continue to hope that, somehow or other, the only available method could by fervor be made to succeed. They tried to induce the industry to maintain large stocks. At times they argued that such a policy would yield a profit or avoid a loss. At other times they warned of shortage. The industry had to be convinced that the advent of war was possible; to be shown that whether or not the United States became engaged in this war, the use of rubber would increase and the inflow decrease; and to be persuaded that until the government took proper protective measures, it had best do so.

The argument was not denied. The plea was not scorned. But the rule of caution was not overthrown. The maneuver, made difficult by the reluctance of those who governed supply to see great stocks come into existence outside of their control, failed dismally. Year after year—with one unplanned exception—the *privately* owned

stock of rubber within the United States shrank. The following record shows how great was the decline:

*Long-Tons*

At the end of 1934	355,000
1935	312,000
1936	223,000
1937	262,000
1938	231,000
1939	125,000
1940	176,000

Had the enthusiasts been clever men they would have asked Walt Disney to graph and animate the descending line, thrown it on the screen when the German armies marched across as they so often did in these years.

For the dangerous significance of this trend did not disturb either the public or the industry. It appears to have been perceived more clearly in Tokyo than anywhere else. Often, as shown by Japanese records since come to hand, elements in the Japanese press and Cabinet believed that our need for continued supplies of rubber from the East would compel the government to come to terms.

The industry in its dealings with the producers showed attentiveness to the suggestions of the Economic Adviser. But he in turn was considerate, feeling constrained in the demands that could fairly be imposed upon a private industry in behalf of a purpose which the government itself was neglecting. Thus the two usually worried without great strain, but also without any determined direction. They pedaled in tandem, but attempted no high hills. Ordinarily they found themselves engaged in a joint effort to induce the IRRC to permit the export of a slightly

larger amount of rubber than it was disposed to provide.

The instances in which the State Department thought itself compelled and justified in seeking an increase of supply despite the evident doubts of the industry, based on the fear of having to buy more rubber than it wished, were not many. But they had indicative importance. A few may be recalled, though they must not be thought to illustrate a habitual divergence of purpose.

Towards the end of 1937, as a consequence of a swift decline in American business activity, the industry was ready to consent to a reduction in the export quota from 90 per cent to 70 per cent. The price of rubber had already fallen from twenty-six cents a pound early in the year to about fifteen cents a pound. There was fear that it would fall further. But to any student of Hitler's moods and marches, this shrinkage in the demand for rubber was destined to be brief. Each success made him more sure of German might and more contemptuous of the weakness of other countries; he would not stop; and it was not conceivable that other countries would fall back before him forever. They would rouse themselves to build and equip armies that could match those of Germany. This would create a great need for rubber. So great a reduction in the export flow as the American industry was ready to accept would mean that when this program was begun American stocks would be drawn down alarmingly.

The industry responded to this forecast of the future without being convinced of its correctness. But the combined persuasive effort of the government and the industry did not dissuade the IRRC from lowering the quota to 70 per cent at its November meeting for the first quarter of 1938.

Then the continuance of the American business reces-

sion during the winter of 1937-8 seemed to support the previous judgment of the industry and the producers in regard to the size of the American need for rubber. The Committee in January reduced the quota for the second quarter of 1938 to 60 per cent, and then later to 45 per cent for the third quarter of the year. The industry failed to protest. The Economic Adviser was handicapped in his attempt to direct the attention of both groups towards coming events by the stock situation in the United States. Stocks had risen by April 1938 to 294,000 tons despite the large quota reductions; and it was thought that by the end of the year they might reach 340,000 tons at even the reduced rate of export. Deductions of future probability drawn from the foreign political news were a weak answer to what seemed to both interested business parties an impressive present fact.

But shortly thereafter—this was the early summer of 1938—the Economic Adviser became sure that the quota must be increased and so began urgently to argue with the industry. His conviction was confirmed by a report that Germany planned to continue to import as much natural rubber as before, despite the large program of synthetic production which was being rushed to completion. No one seemed to believe this supply was destined for the “people’s automobile,” not even the Germans who paid their first installments on that pathetic lure.

Events took the feared turn. American business revived and the demand for rubber with it. Early orders, American and foreign, for military equipment sped the revival along. Rubber purchases were increased, but not quickly or enough. American stocks of rubber were permitted gradually to seep away. The pleas that the self-appointed caretakers shouted into the busy day did not divert many

from the pleasant occupation of making the most out of the new-found prosperity. *Neither the buying activity of the industry nor the supplying activity of the IRRC ever caught up with the growth of demand.* For this failure the American industry and IRRC came to blame each other. The American industry was of the opinion that the Committee would not permit the production of enough rubber to make the maintenance of large stocks safe and attractive. The Committee thought the American industry timid and shortsighted. This view is recorded in a comment in the official History, which it sponsored, that "at the end of 1937 and during the first half of 1938 manufacturers built up their stocks to a high level, but during the latter part of 1938 and up to the outbreak of war, against the advice of the Committee, they steadily reduced their stock holdings although prices remained around the 8d level." <sup>6</sup>

One other instance where the inclination of the industry caused alarm may be cited because of its date. In May 1940—during the weeks when the French army fell apart—important elements in the industry were disposed to favor a reduction in the quota from the then existing rate of 80 per cent to 75 per cent or even 70 per cent. They thought that the prospective flow of rubber into the United States might not be wholly needed. Circumstances seemed to the Economic Adviser to make it necessary to depart from the usual method of informal discussion. He transmitted, "in the most formal fashion," the considered view of the State Department that the security and welfare of the country required the continuance of the 80 per cent quota. The industry was warned that acquiescence in any contrary decision by the IRRC would leave

<sup>6</sup> *The History of Rubber Regulation, 1934-1943*, p. 116.

it in a very unhappy position in the event of a crisis. The industry was impressed and joined in the defense of the existing quota.<sup>7</sup>

The infusion of spirit, in brief conclusion, was never enough to rouse the industry to storm the barricades of control—in a cause it did not feel was its own.

<sup>7</sup> As related in the official history of the IRRC (page 127), the representative of the American Rubber Manufacturers Association on May 6 telephoned to inform the IRRC that his Board tentatively favored a reduction in the quota to 70 per cent, but emphasized that a final opinion would be expressed later. On May 18 he advised the Committee that the American industry would be satisfied with a 75 per cent quota to take care of its own normal business requirements. But he simultaneously informed the Committee that the American government wished the Committee to increase the quota to 90 per cent, the special release of 15 per cent being for the American reserve stock. In the interval the Department had interceded with the industry, and the plan to have the Reconstruction Finance Corporation buy rubber for a government stock pile had been approved.

The Committee makes much of this episode in extenuation of its refusals to increase the permissible quota in November 1939 and February 1940 in response to the request of the representative of the American industry. It comments on page 125 of the History that "This tentative proposal first made in March by the American manufacturers to lower the quota for the third quarter to 70 per cent deserves something more than passing notice. It is a clear indication that American manufacturers were not, even at this time, intending to build up their stocks in America, and that they were still maintaining their policy of holding relatively small stocks in hand and covering their requirements by forward purchases." This comment is open to dispute. The American industry was at the time ready to contemplate *some* increase of stocks, but were afraid that a continued maintenance of the 80 per cent quota would require them to increase their stocks very greatly or accept a heavy inventory loss.

## VIII

### THE BARRICADES OF CONTROL



THESE barricades were guarded with eternal vigilance.

The rubber regulation plan, as has been observed, was established for a business purpose—to maintain a stable and favorable market for producers. This purpose governed the judgment of the men who controlled its operation. It both colored and limited their views of what they were about. Until the events of 1940 brought a surprising vision of disaster, they conceived themselves as dealing merely with an article of commerce. They regarded the size of stocks anywhere and everywhere as a matter of business judgment and regulated them accordingly. Their normal concern was with the condition of the rubber market and not the possible future needs of nations at war. Their view was that if any government wanted to be sure of adequate emergency supplies, it should make fair payment and arrangements that did not menace the future prospects of the producers.

This attitude seemed beyond reproof for several reasons. No guarantee was offered—until 1940—to buy more rubber if the Committee authorized its production, nor was any promise made to retain the excess as an emergency stock. Furthermore, up to the outbreak of the war the governments that could control the operations of the IRRC gave no instructions to cease supplying their possible enemies. Germany had imposed a heavy import tax



on crude rubber and was devoting the proceeds to the construction of synthetic rubber plants; it was, nevertheless, permitted to buy as much crude rubber as it wished. Italy was bent upon a similar course. Japanese consumption showed a marked upward trend as the international strain intensified. The IRRC was not told to restrain or shut off the flow of rubber to these countries. Any necessary countermeasures of defense seemed to be up to the governments that could enforce restrictions on this trade.

At the time when the Agreement was negotiated, *world stocks* of rubber were unusually high and considered to be the cause of the depressed price. To bring about the reduction of these stocks to a "normal" figure was one of the clearly expressed purposes of the control arrangement. The Committee set about the assignment with vigor and success. Then after it had managed to reduce world stocks to what it considered suitable dimensions, it never relaxed an alert guard against undue growth—until 1940. Whenever existing stocks were judged to be either too high, or growing too rapidly, the Committee became afraid that its control of the rubber market might be weakened. Every additional thousand tons of rubber in the possession of consumers increased their freedom to withdraw from the market. The Committee did not wish them to have much freedom of this kind.

The gradual but great decline in stocks that occurred is measured in the table printed on the next page, which relates the size of stocks to current need.

The Committee was not disturbed by this decisive change, or worried over the fact that consumers were becoming increasingly dependent upon their judgment and power to control events. In the account of its operations

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*Thousands of Metric Tons*

	Total Consumption During Year	Total World Stocks at End of Year <sup>8</sup>
1934	919	726
1935	936	645
1936	1,038	464
1937	1,095	532
1938	934	465
1939	1,097	359

sponsored by it, the comment is found, apropos the situation that existed in 1938-9, that "it seems probable that had the war not intervened, the carrying of relatively low world stocks, equal to perhaps four months' absorption, would have been characteristic in this industry under regulation."

The views of the government of the chief purchaser, the United States, and of the IRRC as regards what constituted a satisfactory stock position were steadily opposed to each other. It became usual for this difference of

<sup>8</sup> These stocks were of three sorts. *One*, those held on estates, by dealers in the producing areas, stocks in Singapore and Penang, stocks under customs control etc. Such stocks were strictly regulated under the terms of the Agreement. As estimated by the Committee (History, pages 86-7) "under normal conditions the total stocks inside producing countries were roughly one and one-half to two months' exports." *Two*, stocks afloat. The amount of rubber afloat enroute to foreign countries was ordinarily about one to one and one-half a month's current exports. However, after production was increased during 1940-1 to satisfy American government demand and other buying for war purposes, and since at that period the length of time required for the sea voyage was at its longest, the amount of rubber enroute to the United States at the time of Pearl Harbor was a record high level. *Three*, stocks held in foreign consuming countries. These had averaged about eight months' supply or more during the early years of restriction, but they fell markedly below that in 1939 and 1940.

opinion to express itself in the quarterly meetings of the Committee at which the question of quotas was considered; and it became not unusual for the representative of the American government to intervene in support of the American buyers. The issue ordinarily took the form of a difference over the amount of rubber to be made available for export during the coming quarter or quarters of the year. But this was often, in substance, a debate over whether buyers should pay a penny or two more or less per pound for rubber in order to be able to maintain or increase stocks.

In short, the behavior of the IRRC reinforced the conclusion to which the Economic Adviser and his colleagues had been led by observing the buying policies of the American industry—that *the method of exhortation upon which the United States was relying to provide it with an adequate emergency reserve stock of rubber was certain to fail*. The Committee would not provide the needed excess over current consumption at times and on terms which would induce the American industry to buy and store it. The thought that American needs in time of crisis would be taken care of out of private stocks in existence was an illusion, and nothing else.

But the effort went on to extract all possible extra rubber from a reluctant Committee and to persuade the American industry to take a risk, which it did not relish. The risk would have been incurred for a public purpose—to protect the United States against a lack of rubber in peace and war. It was one, therefore, properly assumed by the country as a whole. But the country was not yet ready to do so.

## IX

### WE PROPOSE AND ARRANGE BARTER WITH THE BRITISH GOVERNMENT



THE great decline in American and world stocks that occurred between 1934 and 1938 aroused no misgiving within the industry or outside. It did not incite the American industry to throw aside valid caution during the early part of the latter year when much rubber might have been had cheaply. But when the tide of activity turned at the end of the year the United States found itself in shallow straits. A frantic struggle to extract itself from that dangerous situation began.

Current consumption grew rapidly. And now, having reflected upon the meaning of Munich, the Army and Navy revised their estimates of minimum safe reserve far upward; they urged that a government reserve stock of at least 250,000 tons be acquired to supplement stocks in the hands of private industry.

The State Department, in close accord with the industry, strove harder to bring about an increase in American stocks. At each quarterly meeting during the early part of 1939 it put requests before the British and Dutch authorities—to obtain from the IRRC a fraction more of approved export than the Committee was willing to grant, *unless some American buyer would agree in advance to buy this additional rubber at a settled price and keep it off the market.* But the Committee continued to confine

production within a 50 per cent quota. This was in part justified by the increase made in the *basic* quota in 1939—an increase to 1.5 million tons as compared with a 1938 base that had been 15 per cent smaller.

This was the situation confronted by the enthusiasts when they turned to the idea of barter. In the spring of 1939 our warehouses held little rubber. But they were stuffed tight with wheat and cotton. The idea of a swap, which had been discussed two years before, re-emerged.

It had been first mulled over in connection with a bill presented to Congress in 1937 (H.R. 1608 introduced by Representative Faddis). The historian will note that rubber was not named among the articles designated in this piece of legislation; other strategic material needs were deemed more urgent. The bill did not pass. Many members of Congress were indifferent to its purpose, others unwilling to recognize our dependence on the outside world for the materials sought. It was the period of belief that the government should scour the Dakota hills for tin before buying it from Malaya, and that our poor supplies of manganese should be used up before we brought it from elsewhere.

The attention of the Economic Adviser was caught by one change in the scope of the supporting argument made by the War Department for this early legislation. For the first time, or so his memory reported, the Armed Forces publicly sketched out a program for the accumulation of strategic materials designed not only to serve their own direct needs but also to take care of other essential uses in time of war.

The Economic Adviser had been leniently permitted to

encourage the Faddis Bill within the committee rooms of Congress, and thereby nourish his personal enthusiasm. But in some parts of the State Department a fear had then existed that public advocacy of such legislation would reveal an anticipation of war. There was also a distasteful doubt lest it would hinder the attempt to bring about reduction of trade restrictions. The Secretary of State was infusing the Trade Agreements program with his belief that the basic causes of war were economic; and he was living on the hope that if trade could be revived, the threatening nations might settle down. This seemed the natural interpretation of the ardent faith with which he continued to proffer this program as a solution for the deepening crisis. Further, any trading activities into which the government itself entered were apt to mar that conception of equality of opportunity among nations which was judged basic to a thriving peaceful trade. Thus, the Secretary of State doubted that the result of barter operations of the kind visualized would justify the implications and effects.

For these reasons he for a time rejected the idea of barter. Instead he urged the enthusiasts to try to arrange for the secret inclusion of small sums in the Army and Navy Appropriations. With this idea of direct cash purchases by the government the enthusiasts had no quarrel. This was, in fact, the only program in which they had faith. But tiny sums—a million here or there—such as were discussed, would not do at all. As for the wish to conceal anxiety over the possibility that war was due, or even that the United States might have to fight, that seemed pointless.

The Secretary by 1939 came to accept these opinions, though with a saddened sigh. He agreed that cir-

cumstances made it necessary to grasp at this cumbrous method of barter. The Economic Adviser, thereafter, was given a freer hand.<sup>9</sup> A few of the technicians within the Department maintained their opposition to any measure outside the bounds of established American trading practice; this was part of a general distaste for a course of events that threatened to overshadow the trade program. Only a tiny group among these continued to believe that National Socialist Germany might be reformed if the western democracies lowered their trade barriers; but one among them was an intellectual Baillief of a man who talked interminably.

The change in the judgment of the Secretary of State responded with the appearance of new and influential support for the idea of barter. Concern over the large stocks of American foodstuffs and cotton that this government was buying had become acute. The cost of carrying these stocks was growing fast and they darkened

<sup>9</sup> The Economic Adviser was authorized to make this change of attitude clear in March 1939, when appearing before the House Committee on Military Affairs in support of the strategic Raw Materials Bill to which reference is made in the text (Page 7).

Several members of the Committee showed themselves curious about the point.

For example, Congressman Smith asked: "Do you know whether there has ever been opposition in the State Department to the acquisition of these so-called stockpiles on the ground that the acquisition of them is inconsistent with the theory of the trade agreements?" The Economic Adviser was able to reply: "... When first the subject came up for discussion, there was a certain amount of wonder as to whether there might be some contradiction, but that is long since passed, and all divisions of the State Department are now quite of the same mind with regard to the objectives of this legislation."

"Strategic and Critical Raw Materials." Hearings before the Committee on Military Affairs, House of Representatives, Seventy-Sixth Congress—First Session on H.R. 2969—March 2, 1939, p. 105.

the future prospects of the farmer. The Secretary of Agriculture became a leading proponent of the barter method—being attracted both by the chance to rid himself of unwanted quantities of farm products for which he was custodian and by a strong conviction that we should be hurrying to secure defense materials.

The enthusiasts were pleased by the new support. But they feared that it might set their effort back rather than advance it. They had one aim—to secure strategic materials; some of the new supporters were more interested in another and different aim—to maintain farm prices. They welcomed the junction of interest, but were at the same time wary of the entanglement. Congress was at long last at the point of authorizing some governmental cash purchase of strategic materials at home and abroad. It was feared that opponents of this essential step might use the barter plan as a new reason for denying any cash appropriation. In that event they would be back in their thicket of frustration. They wished to be tacticians of security, not salesmen for farm products.

The enthusiasts hastened to reach a plan that would prevent confusion. An agreement was worked out between the Secretary of Agriculture, the senior Senator from South Carolina who was following the subject intently, and the Economic Adviser. The two methods of action would be conducted independently of each other but simultaneously. The bill for the purchase of strategic materials upon which the enthusiasts were working with members of the Military Affairs Committee of the Senate was to be left unencumbered by arrangements for barter. But the State Department was to start negotiations at once with foreign governments for direct commodity swaps.



If any could be arranged, Congress was to be asked to provide new and separate authority to give effect to them.

Proposals were made at once to the governments of Great Britain, the Netherlands, and Belgium. The negotiations that ensued were not easy. Skeptical officials in London, The Hague, and Brussels at first seemed aware mainly of their deranging possibilities. It must be recalled that at the time American foreign policy seemed one of watchful aloofness from the fate of those countries. The offer, therefore, appeared abroad as an American move to free itself from dependence on outside sources of supply, not as a measure of mutual aid in a joint struggle against a common enemy. Our Neutrality Act was still in full force though fast losing repute; by its terms the United States had declared that it would refuse to sell weapons of self-defense to England and other foreign nations if war should come. How could we claim their helpful support of our wish to make our own defense surer?

The proposal put up to the British government was direct, urgent, and of large scope. It stated that this government would make available "any quantity of cotton and wheat desired by other governments for emergency reserve stocks in exchange for stocks of strategic materials to be held in reserve here." As a first step an immediate exchange of cotton and wheat for rubber and tin was urged. The American government, it was explained, was prepared to lock up the materials received so that they could not affect the ordinary sales prospects of the producers. Correspondingly, it was pointed out that if the transaction was not to increase the price of rubber it

would be essential for the British government to direct the IRRC to provide the "barter" rubber in addition to the quota required to satisfy commercial demand.

The first responses of the British officials to these proposals were distressingly dubious. Our excitement was not deemed well enough justified to disturb the well-settled arrangements for the supply and export of rubber. In truth, our proposals did present many perplexities to the British authorities. Constructed storage for wheat within Britain was reported to be full, or nearly full; those who had planned the storage space were either concerned with pennies or had an imperial sense of assurance that wheat would continue to flow into Britain, no matter what. Great Britain had an agreement to buy Indian cotton. It did not wish to be thought to be violating this agreement or to give undue preference to American cotton. Then, too, the British government did not own the rubber-producing plantations. To secure rubber and deliver it to us would require an outlay of government funds not only in British but also in other producing areas. For the international rubber agreement specified that all allowable production had to be divided between all producing areas according to rigid rules.

These difficulties would ordinarily have led to a conclusive refusal. But the American government insisted upon acceptance. The many types of aid it was giving to Great Britain in the looming crisis entitled it to do so. It was made clear that in our judgment our offer should command the attention of those authorities in Britain who were responsible for the future security of the Empire, and should not be measured in terms of ordinary economic advantage or convenience. It was also made clear that American decision on various current matters, such

as RFC financing of British defense purchases, might be swayed by the British decision. These arguments prevailed. It may be that the wish of Britain to find terms was warmed by the presence of its sovereign in the United States. His visit created an era of good feeling.

Even so, the deal was much smaller than that proposed. The agreement that was signed provided only for an exchange of 600,000 bales of cotton for about 90,000 tons of rubber. The British government decided finally that it had no place to store more wheat. It stated that the anticipated Dutch opposition would be too serious to arrange to provide tin (the refusal of the Dutch government to enter into any agreement with the United States proved that this anticipation was warranted).

The British government found it expedient to quiet the rubber-producing interests by consenting to obtain the promised rubber in the market in the same way as any other buyer. Thus, the control of the IRRC would not be disturbed. It would continue to rule over the world flow of rubber; and, as will be related, its decisions would continue to govern the rate at which the barter rubber was actually obtained.

Throughout the negotiations the Secretary of Agriculture gave friendly advice and vigorous support. The skill and understanding of the Senator from South Carolina won immediate action in Congress. Speed was important, for the IRRC would not increase the amount of permitted rubber exports unless it was certain that the deal would be put into effect. The Agreement was signed on June 29th, and made officially valid by an exchange of notes on August 25, 1939.

It provided that the rubber was to be made available for inspection and acceptance by American experts dur-

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ing a period of six months, beginning at a date to be agreed upon by the two governments.<sup>10</sup>

The two governments agreed not to dispose of the commodities exchanged except in the event of a major war emergency.<sup>11</sup>

The amount of rubber ultimately obtained as a consequence of this agreement (about 90,000 tons) proved to be a significant fraction of all the rubber available to the United Nations during the first war years. But it had to be wrung out of the grasp of producers and snatched away from other buyers. As the Economic Adviser engaged in these tedious activities, there were only rare moments of satisfaction. For, in the first place, the rate at which this barter rubber was amassed in warehouses of the United States was much slower than anticipated. In the second place, as fast as—or faster than—this rubber began to accumulate in government hands, stocks held by American private industry shrank. Thus, the reports of the gradual accumulation of a small stock of “barter” rubber did not lessen the fear that total American rubber supplies would be short in the event of war.

<sup>10</sup> However, it also stated that “if either government should find that delivery in accordance with the arrangements specified . . . is likely to restrict supplies available to commercial markets unduly or to stimulate undue price increases, the two governments shall consult with a view to postponing delivery or taking other action in order to avoid or minimize such restriction of supplies or such price increases.”

<sup>11</sup> The government of the United Kingdom also agreed to “. . . use their best endeavors to secure that the export is permitted under the International Rubber Regulation Scheme of an amount of rubber approximately equal to the amount of rubber to be supplied to the United States Government under this Agreement in addition to the amount of rubber which would, under the normal operation of the Scheme, be released to meet current consumption needs.”

## X

### BUT THE DUTCH WOULD NOT BARTER



THE barter agreement with Great Britain was the only one concluded. A similar offer made to the government of the Netherlands came to naught. The Dutch government could not be convinced that the advantages of the transaction were equal to the risk. It did not understand—and indeed it was hard to understand—why the American government could not proceed to acquire rubber by cash purchase rather than through this unusual and troublesome method of barter. It was natural to doubt whether an increase in our rubber stocks was as important as asserted—since the Executive branches of the American government had not yet insisted upon, and Congress had not yet voted funds for the purpose. Trucks were depositing new piles of gold at Fort Knox each week.

The government of the Netherlands also believed that local reserves of wheat and cotton were already as large as it was wise or necessary to hold; huge stocks might tempt a possible invader. Then too, the Netherlands had customarily imported little raw cotton; its spinning industry was small, and its weaving industry utilized Japanese yarns. Furthermore, the Dutch government was afraid that an agreement of the type proposed would be regarded by powerful circles within the Netherlands, and perhaps by Germany itself, as a step towards alignment in

an anti-German coalition. Or if the German government did not take that view it would almost certainly insist that the Netherlands deliver rubber and tin to it on the same barter basis as it would be delivered to the United States.

It proved impossible to overcome such a powerful battery of arguments and doubts. By June the American negotiators gave up the attempt. Looking backward, it seems clear that in 1939 many of the officials of the Netherlands government thought it unlikely that war would come to western Europe. And when they thought about the chance, they became alarmed lest by giving aid to Germany's opponents, they might by that very step pull down the thunder of war not only upon themselves but upon the whole of Europe. The reasoning of the Dutch government combined all the caution of a small and peaceful country with a prayerful wish to be spared.<sup>12</sup>

<sup>12</sup> Two later attempts were made in 1940 to resort to further barter. In May 1940, when adequate appropriations were still lacking and the plan for RFC buying still lagging, the Department of Agriculture again urged that farm products surpluses be swapped for strategic materials. It prepared legislation which would have authorized the President to make *advance* payments for strategic materials in gold, provided foreign governments used that gold to make additional purchases of farm products. For a short while this suggestion threatened to throw further confusion into the program for procuring strategic materials. It was finally put aside.

In April and May of 1940 an offer was made to provide the British government with hops, raisins, prunes, rosin, corn, and tobacco in return for more rubber. The British government presented a series of detailed questions including an inquiry as to whether we were willing to spread delivery of the rubber over a long period of years. It soon became evident that any deal that could be worked out would bring us very little rubber quickly. Thus the discussions were permitted to lapse. With the downfall of France it no longer remained necessary to try—figuratively speaking—to make our tires out of surplus hops, raisins, and prunes.

## XI

### THE BATTLE OF THE QUOTAS— UP TO THE FALL OF FRANCE



ACCOUNTS of past business disputes are apt to seem stale and shabby, little differences dragged out while nations rose to grandeur or fell into ruin. Without statistics they are unclear; with them boring. There is a temptation to leave them to the arts of a Balzac, for transmutation into a study in the soul of man. But in the disputes that arose between the IRRC and the American government more was at issue than business advantage—the welfare and defensive power of the Allies against the Axis. An examination of a few of the later incidents will show how hard and critical the disputes were.

The obstacles met in securing enough rubber to complete the barter deal revealed that those who controlled supply had lost touch with the events that were shaping the destiny of nations. The battle of the “quotas” became loud and disagreeable. The ready co-operation of the IRRC was not secured until after the invasion of Holland and fall of France, until the war was almost lost.

It would be incorrect and unfair to attribute the lagging inflow wholly—or perhaps even mainly—to the selfishness of foreign interests. American action fell just as far below the necessities of the situation. Then, too, there were incessant practical difficulties. The wish of every interest concerned to take care of itself first made it hard

to arrange action; practical obstacles made it hard to carry out what was arranged.

The IRRC set a limit upon total permissible export. But *actual* production might—and when the quota was greatly increased sometimes did—fall below the authorized amounts. Then, too, even when enough production was permitted and realized, rubber would find its way into American reserve stocks only if buying for that purpose was made effective against competing demand. The American government was unwilling to pay the necessary price. Lastly, even if the rubber was actually acquired for delivery to the American government, shipping had to be found to carry it to the United States. But the problem of securing the release of a sufficient total supply of rubber emerged first and was the most stubborn.

Upon the completion of the barter deal the IRRC raised the quota from 50 to 60 per cent to ease deliveries called for by the agreement, shading down the too modest request put forward by the American government. It protested that this would not permit the fulfillment of the barter agreement. The British government agreed. Its usual whisper to the Committee was converted into a command. The quota was raised to 70 per cent to be effective during the last quarter of 1939. This was on the eve of the war. The step taken was not enough to maintain a stable market for rubber, much less to make possible the rapid acquisition of a reserve stock.

When the German army marched into Poland, the total stock of rubber in the United States was 160,000 tons and current permitted production was barely enough for manifest immediate demand. Now even skeptical American buyers recognized that the world was not ready to



submit to Germany and sped their orders east. Speculators joined the ranks of usual buyers—sensing a profit in war needs.

The American government renewed its assaults on the barricades. Our Embassies in London and The Hague were given pointed instructions to use all their influence to force the IRRC to pay heed to what was going on outside the walls of its statistical bureau. How serious a penalty was the world to pay for the stupid reading of charts—which could not record the madness in men's minds? Against the stubborn resistance of the Dutch member in particular the Committee was prevailed upon to increase the quota for the fourth quarter to 75 per cent—some extra 19,000 tons. How vigorous an effort was required to achieve that triumph is reflected in the comment of the American Ambassador in London to the Department; "I hope," he cabled, "you will not let the rubber . . . interests in the United States think that these increases have come to them as a matter of course. They have not." It should be observed that all the estimates of prospective need, which the IRRC had before it while it debated, including that presented by the American industry, were many, many thousands of tons too low.<sup>13</sup>

That the request of the American government still erred in being too small was soon demonstrated. American private stocks declined further between the end of August and the end of October. Deliveries under the cotton-rubber deal continued to lag seriously behind schedule. The British government buyer reported that

<sup>13</sup> An explanation of the views of the Committee may be found in the volume it published, *The History of Rubber Regulation 1934-1943*, p. 120.

competing buyers made it impossible to secure the rubber sought without forcing up the price.

Thus, at the end of October the American government renewed its demand for a further allowance. The American Embassies in London and The Hague were instructed to request the British and Dutch governments in turn to instruct their representatives on the Committee to increase the quota to 85 per cent for the first quarter of 1940 and apply it retroactively. The Committee, facing serious administrative difficulties, made clear that it preferred to leave the quota unchanged and to defer deliveries under the barter agreement. Its view, as already recounted, was that American buyers had neglected excellent earlier opportunities to add to stocks; and that now we had grown too excited about an unlikely danger, and that our excitement would prove costly to all. Or, as stated in the official History, the Committee was "nervous of the position which would be created by raising production to very high levels to meet an immediate demand for 'barter' purchase and stock increases to be followed, in all probability, by a steep fall in the rate of release."<sup>14</sup>

Now thoroughly aroused, the State Department took the position that it would not dicker further with the Committee. It told the British government that it was up to it to see that our request was met since "any further delay in the accumulation of such stocks would be viewed with great concern in the light of the present world situation." The British Foreign Office recognized its obligation to argue our case and did so decisively. The Committee with an air of dejection agreed to fix an 80 per cent quota for the first quarter of 1940. In order to secure this concession we found it necessary to agree to extend the

<sup>14</sup> Ibid., p. 121.

period of delivery of the barter rubber a further three months—that is, to June 1940.

Satisfaction with the outcome of this bout with the Committee was short-lived. The American situation grew worse not better. Therefore, in December, we set about again to persuade the Committee to authorize the exportation, in this remaining month of the year, of available rubber that would otherwise not move until the next year—1940. The difference in American wishes and the Committee's wishes were revealed plainly. We wished to secure the "barter" rubber at once, regardless of whether sometime in the future economic conditions in the rubber-producing areas were disturbed. The Committee wished to have the deliveries of the "barter" rubber scheduled, as far as possible, so as to maintain a stable production and price outlook for the producing areas.

In all of the controversies of this period the most stubborn opponent of the American requests was the Dutch representative. He believed them unfairly to expose producers to ruin and the Indies to future economic disaster. That phlegmatic and slow-witted man was misled by his devotion to the principles of sound colonial economic policy for ordinary times. Though the German armies were massing near the Dutch frontier and Japan was framing its dominating economic demands on the Dutch colonies, he did not realize how changed his responsibilities had become. The chance for survival of order among free men anywhere might soon be affected by the supplies of rubber they would possess; but he remained absorbed in the survival of economic order in the Indies. It was the easier for him to feel his position justified because the United States failed to make any proposal that would have safeguarded the Indies against later collapse and dis-

turbance. We sought the rubber; but until our own fears compelled us, we refused to concern ourselves with the dilemma of the producers.

As so often happens in incidents of this type, the disputants looked at the same situation through different glasses. The Committee, looking back over the year 1939, felt that it had done a great deal to satisfy American demands; the quota had been raised from 50 to 80 per cent, a rate of increase never before achieved; the export of rubber from the control areas had been increased from 779,000 tons in 1938 to 887,000 tons in 1939, and prospectively at an 80 per cent rate it would grow to about 1.2 millions tons in 1940.

Still, the American officials could find no satisfaction in the figures which were on their pads. Total stocks of rubber in the United States at the end of 1939 (including the small amount in government hands) were only 125,000 tons (after falling as low as 110,000 tons in November). This was extremely low compared with what they had been when the flow of supply seemed as well assured as the delivery of the morning's milk, when there was no thought of war in the world. Any pride that might have been felt in the skillfulness of our negotiation drooped before that record. We had been shouting about our need for rubber in a canyon that grew longer and deeper each day.

Now came the strange pause of the first winter of the war. American isolationists called it a "phony war." American rubber buyers plodded along their usual path—happy and calm since current inflow was enough for the actual orders on their books. The IRRC seemed at ease

behind their Maginot line, still dreaming perhaps that peace would come over the snows.

But the sense of impending events that spread throughout the State Department led it to break the strange quiet, to try once again to get more rubber though the American industry seemed content with a continuation of the 80 per cent quota. In February, our representatives in London knocked again on the now familiar doors. They offered both statistics and prophecy, but to no avail. The Dutch representative continued to believe that it was fair and sensible to arrange the deliveries of barter rubber as cushion against the future decline in world demand; he favored a reduction. But the British representative now concerned with the smallness of British stocks, resisted and prevailed. The Committee voted to maintain the 80 per cent quota for the second quarter of 1940. It has since admitted that in doing so it underestimated world absorption (especially the growth of French, Russian, and Italian buying) during the first half of 1940 by about 50,000 tons.<sup>15</sup> It seems to have been poorly informed of the size of the forces that were to appear on the battlefield of Europe, and of the fact that they would move and fly on wheels. The scale of plans that were being drawn up in Washington and Moscow were difficult to grasp in the quiet streets of The Hague.

Nevertheless the rate of acquisition of "barter rubber" improved slightly during the early months of 1940. The British rubber buyer managed to accumulate a few thousand tons for delivery to us under the Agreement. But even when these were added to our other stocks, the amount of rubber at the command of the United States

<sup>15</sup> Ibid., p. 123.

remained pitifully small—about 150,000 tons. This was less than three months' supply at the then current rate of use. Provided demand did not increase—and the prospect was all to the contrary—the best that could be hoped for was that by the end of 1940 commercial stocks would have been increased to 170,000 tons and "barter" stocks to 80,000 tons, a total of 250,000 tons. And if current American consumption increased!

## XII

### THE GOVERNMENT FINALLY DECIDES TO BUY RUBBER



**I**N the early spring of 1940 Germany launched its assault upon the Western Front. German ships entered the harbors of Norway; British and French expeditions dispersed and withdrew in bitter confusion. In a few days the cities of Belgium and Holland were lost and their armies surrendered. The attack turned swiftly against France.

A stronger note of urgency entered into the conferences of the enthusiasts. They ceased their patient wooing, and began to scratch at the face of complacency. The Economic Adviser produced two more memoranda expounding the same old theme with angry impatience. The first one he circulated on April 17 did not differ much in substance or argument from earlier ones except for its shriller and more ominous tone. The situation (it reiterated) was clear; American stocks were wholly inadequate for the advancing emergency. The danger was evident; the inflow from the Far East on which we lived could be cut off. The defense was simple—immediate government purchasing. The opportunity was favorable; surplus productive capacity would be available during the second half of 1940. The British and Dutch governments could be more easily swayed to assist us, now that their ultimate fate—not to mention their continued power

to defend the rubber-producing areas—might depend on aid only to be had from the United States. All circumstances favored immediate action! All reflection on the meaning of the war news showed it to be imperative.

A few days later this memorandum was followed by a more extensive and still more emphatic supplement which was sponsored and formally presented to the Secretary of State by the whole group of enthusiasts in regard to the three main strategic products secured from the East—rubber, tin, and quinine. This report ended with the blunt assertion that if the United States “should itself become engaged in war, its supplies of all three materials would be pitifully inadequate.”

The headlines of the past fortnight had impressed many hitherto unperturbed figures. Overnight the appeal of the enthusiasts received the magical support of authority. The Acting Secretary of State on May 1 sent the second memorandum to the White House with an urgent recommendation that a comprehensive program for accumulation of strategic and critical materials be undertaken at once. In regard to rubber, his letter stated that a new agreement should be negotiated with the British government and “as an immediate means of bringing about an increase in the rubber stocks of this country, it is believed that the American rubber manufacturers would be encouraged greatly to increase their holdings of rubber if the Rubber Finance Corporation could make available to them sufficient funds. . . .”<sup>16</sup>

<sup>16</sup> The program finally enacted for public purchase for retention in reserve stock piles to be drawn upon only in the event of an emergency had been preceded by many and long gropings in the same direction.

The IRRRC had repeatedly in the course of its discussions with representatives of the American industry and government made



When the recommendation returned from across the narrow road that separates the White House and the State Department, it bore the cryptograph of action—"I approve. F. D. R." The Acting Secretary of State was instructed to inform the Director of the Budget, the Fed-

its views on the question of stocks quite clear. These were in brief, that it was not the function of the Committee itself to hold stocks; that this was the business of middle men or consumers; and that if the American or any other government did not think the stocks which these groups held sufficient, it should assume the cost and risk of supplementing them and isolating them from the market.

This attitude was also shown in connection with a suggestion made by the American government when the rubber agreement was renewed in 1938—that the IRRC should require producers to maintain stocks above a minimum level to meet unanticipated demands. The Committee, in response, authorized producers to hold slightly larger stocks than before, if they so chose. But it asserted that the American suggestion was not feasible. It also refused to take the initiative or assume the risk of operating a "buffer-stock" plan.

About the same time, the Economic Adviser discussed with representatives of the American industry a suggestion that it conduct its buying jointly and jointly acquire a special stock. At the time the price of rubber was low and producers desirous of avoiding too low a rate of activity. For a brief time, many of the companies were reported to be favorably disposed towards the creation of an organization to do "joint buying" provided the Reconstruction Finance Corporation would finance its operations on favorable terms. But the lawyers of that government bureau did not believe that it was legally authorized to provide the money and take the risk—unless in some way or other the arrangement could be framed so as to connect directly with the employment of labor.

The idea was then dropped.

After Munich the groping for some plan to supplement private buying became much more intent. At the initiative of the Army-Navy Munitions Board, the industry and the government jointly canvassed the situation. Following upon these meetings the Board of Directors of the Rubber Manufacturers Association sent formal word in December 1938 that they earnestly desired to co-operate with the government in a plan whereby the industry would make additional purchases for the account and at the risk of the government, or alternatively in a system of direct government purchase,

eral Loan Administrator, and the Secretary of the Treasury of the decision. The Acting Secretary immediately did so. At last there was a prospect that we might acquire an adequate reserve stock of rubber. The attempt to do so became a race against time.

using the industry to manage the storage and rotation of the stock. A preference was expressed for the second method. *Shortly thereafter at a further meeting between representatives of the industry and officials of the State, War, and Navy Departments a plan was outlined which was in all essentials the same as that put into effect in May-June 1940.*

But the Reconstruction Finance Corporation was unwilling to carry out the plan with its funds, being unsure of its legal authority to do so. It had no instruction to take the initiative. The industry would not beg and it would not offer.

When in May 1940 the plan became acceptable the RFC had but to reach into the drawer where discarded documents sleep until new entrants to office cast them into the waste basket.

## XIII

### BUT BARGAINERS HAD FIRST TO BE BUDGED



THE Economic Adviser hurried to spread the word about. He rushed to talk over with the Federal Loan Administrator what new legal authority might be needed and what types of agreement had to be negotiated with the IRRC. An immediate positive proposal was essential if tonnage was not to be lost.

The Federal Loan Administrator listened with a benign air to the plan that the Economic Adviser outlined. But he showed no eagerness to restrict his own power to decide how and when the job should be done by giving any promise to the zealous visitor. He agreed, however, to join with the State Department in a cable to the American Embassy in London conveying assurances to the British authorities. These were to the effect that the American government firmly wished to keep large quantities of rubber for reserve stocks flowing into this country during the next year or more, and that American interests would be in a position to acquire them. The full and immediate co-operation of the British government and the IRRC was sought while the details of the buying plans were being settled.

A dreary, useless spell of bargaining began. On May 11, the Economic Adviser met with the Federal Loan Administrator and the president of the Rubber Manufac-

turers' Association. He witnessed an adroit performance in the maintenance of reserve. The Administrator permitted it to be known that the RFC was in a position to help substantially in the task of rubber accumulation and that it desired the views of the rubber industry as to how this might be done best. He said that if the rubber industry organized a corporation to buy rubber, the RFC would be glad to supply much of the capital. With level voice he explained that, under the law, the RFC would have to have a "good borrower," and, therefore, the rubber industry would have to provide the corporation with enough capital to form a "substantial" margin against its loans. The president of the Rubber Manufacturers' Association listened with sardonic calm and kept his thoughts to himself; he promised to discuss the ideas that had been put before him with the heads of the rubber companies.

As the Economic Adviser walked back along the familiar, dusty street that led from the musty structure that then housed the RFC to the gray State Department building, he glared at the stones with dull anger. This last leisurely pirouette had an upsetting effect upon his temper; it seemed as out-of-date as the bits of old newspaper that whirled about him in the sultry breeze. He thought of resignation and muttered phrases that would fit into a public statement. But in the familiar atmosphere of his shabby office, habit prevailed. There he found colleagues to share his wrath, and there was still enough patience and paper for another memorandum for the attention of the Secretary of State.

There was no time left, the memorandum insisted, for bargaining. Haggling must end and action begin. To miss the chance to present a firm offer to the IRRC at its May

meeting would, the memorandum ran, be inexcusable. This could not be done unless the Federal Loan Administrator willingly and vigorously took the lead and accepted the full risk and cost. If the RFC did not have clear legal authority to do this, Congress should be asked at once to grant the right. For the industry, being of the opinion that the acquisition of emergency reserve stocks was a national responsibility, would not agree to the type of arrangement suggested by the manager of the government's purse. The Secretary of State approved these conclusions—if not the impatient tone in which they were expressed—and impressed them upon the President.

Two urgent further notes were thereupon dispatched to our Embassy in London. It was again told to inform the British and Dutch authorities that the acquisition of reserve stocks of all strategic materials was now regarded as of the utmost national importance; that the American government wished to get the maximum possible amount of rubber as quickly as possible. It was informed also that the government was ready to pay a satisfactory price and make sure that the ordinary market for rubber would not be hurt; and that it wished the IRRC to raise the quota for the whole year 1940 to ninety per cent or higher—without waiting for details of the contract to be settled.

The President asked that eager mind in slight body, which, clothed in a worn dressing gown, slipped in and out of bed along the hallways of the White House, to see that the whole approved program was hurried through. The instructions were that stocks of the less costly materials, which could be acquired for smallish sums, should be bought out of funds to be requested under the Strategic Raw Material Bill (Public 117) enacted by Congress

in the previous session. Stocks of those materials that would cost great sums—particularly rubber—should be bought by funds to be supplied by the RFC.

The Economic Adviser readily agreed that this was the way the job should be done. But his experience prompted him to remark that it would work only if the RFC was induced to abandon its view that any and all uses of money must yield safe interest and begin to value rubber above financial safety. He was informed, in reply, that the President had already informed the Federal Loan Administrator that the job must be done without further haggling. The telephone had been used through the night by that official to inform the companies of the wish to move ahead rapidly.

On May 22, the heads of all the larger American rubber-producing companies came to Washington to talk with the Federal Loan Administrator. This meeting the Economic Adviser had the privilege of opening by a repetition of views that were already embalmed in a score of memoranda. He had the impression that he still had to combat an assumption dwelling in that room that the war would not reach the Southwest Pacific, or, even if it did, that rubber would continue its regular flow into the United States. He roamed over the possibilities of blockade of the producing areas, of war within them, and even of Japanese conquest of them—though he did not foresee this would happen if the United States were in the war.

No one in the audience showed himself moved by this review to change what they had come prepared to offer or demand. The bargaining began again. The Federal Loan Administrator expressed a preference that the rubber industry should organize itself to acquire and hold

the extra reserve stocks. For this purpose, he said, the Reconstruction Finance Corporation would provide the capital and take a "substantial" share of the risk. The representatives of the industry stated that they were strongly in favor of the objective, but showed no elation over the idea of taking a share in its hazards. The meeting dispersed without any final issue. The industry wished the government to assume all, or virtually all, of the financial risk. The Federal Loan Administrator remained interested in the reverse of this idea.

There the matter might long have hung suspended on that cobweb of caution, which is sometimes stronger than steel—had the issue not been forced from London. The American Embassy, the British government, and the IRRC had all taken our grave assurances of purposes as wholly meant. In agreement they advanced a set of proposals on which a decision by the American government was required at once. This meant an end to the bargaining that could only have one outcome—acceptance by the doughty head of the RFC of the whole outlay and risk. It was proposed that the IRRC would at once send someone to the United States with full powers to negotiate an agreement with the American government. It would maintain the quota for the rest of the year at 80 per cent instead of 90 per cent requested (otherwise a reduction of the quota was in prospect); but when and as any actual agreement was concluded and more reliable word received as to how much rubber could be produced in the near future, the Committee would consider the quota question anew.

These proposals were accepted. The Committee thereupon authorized the issue of export permits at the 80 per cent rate for the whole of 1940. The Colonial Office be-

gan a series of exceptional measures to stimulate production and hasten shipment of rubber from British producing areas. By the time the Committee's representative arrived in the United States on June 13, the Federal Loan Administrator and the American rubber industry had agreed upon detailed plans for buying reserve rubber.

The negotiations with the IRRC now sped forward. The head of the RFC accepted the fact that the American government must buy a considerable amount of rubber, even though it might never be needed. And the IRRC was now eager to provide it. As observed in the official History of the Committee, "The conclusion of the first Agreement with America coincided with events in the world of the greatest gravity to Britain and Holland; the latter had fallen to the enemy; the former was in dire peril. In these grave circumstances the dominant mood was one of service, and of a desire to win the sympathy and approval of a friendly and powerful nation—the United States of America."

Questions involving large sums over which in ordinary times the bargainers would have differed for months were settled in a fortnight. Differences of opinion as regards the "fair" price range at which the rubber was to be acquired, and the rate at which it was to be made available, were surmounted.

The RFC created a new subsidiary to handle its program of acquisition—the Rubber Reserve Company. It undertook to buy up to 150,000 tons of rubber for an emergency stock over a period of months at a price range of between 18 and 20 cents per pound. The IRRC undertook to do everything possible to see that the necessary quantity of rubber should be made available within this price range. It was agreed that the rubber for the Ameri-



can stock pile should come out of increased rubber production, so that there would be enough rubber to meet current needs as well. It was hoped thereby to avoid intensified competitive bidding between the American private industry, the Rubber Reserve Company, and foreign buyers. The American industry promised to continue enough buying to maintain a normal stock—to be interpreted as 150,000 tons. The Rubber Reserve Company underwrote this promise. These were the terms on which the circuit of bargaining was finally sealed. It was none too soon.

Congress responded quickly on June 25 to the request of the Federal Loan Administrator for an amendment of the RFC Act. That organization was authorized and enabled to finance and manage a vast program of purchase of strategic materials, unhindered by domestic economic or political considerations. It was by the use of this new power during the eighteen months that remained before Pearl Harbor, that the United States secured the raw materials for war.

The government and the industry were linked through their contributions to the capital of the Rubber Reserve Company and managerial arrangements. As events developed, however, the government supplied virtually all the funds in order to have conclusive authority; it assumed all the financial burden and risk.

It is doubtful whether the benefits of private participation in the management of the Rubber Reserve Company outweighed its working influence on the policies pursued. The sense of partnership possessed by the rubber industry probably increased the trust and energy with which it assisted in certain parts of the program—inspecting, storing, maintaining, and rotating the rubber. It also

created harmony between the buying policies of the government and private industry; competition between them was adjusted and speculation was prevented. But on the other hand, as will be seen, the joint arrangement was so operated during the months ahead, as ordinarily to permit buying on private account to have preference over buying on government account. The rate of growth of government stocks was retarded. It was made easier for the industry to acquire and consume increasing amounts of rubber for ordinary civilian use longer than was wise. If the industry cannot be harshly judged for pursuing its usual course, the government can be—for permitting it to do so. The messages that Tokyo was sending its diplomats and soldiers were being decoded in Washington—not Akron.

## XIV

### STILL THE RUBBER DOES NOT FLOAT INTO OUR WAREHOUSES



THE day before the Agreement was signed it seemed an immense achievement to the enthusiasts, compared to anything they had managed to bring about in the past. The day after it was signed they allowed themselves to be disappointed because of the small size of the scheduled purchases—150,000 tons. By that time the Army-Navy Munitions Board was recommending a minimum government stock pile of 430,000 tons.

This was only the beginning of their disappointment. The rubber did not float over calm seas into our warehouses; there was never enough of it, and what there was floated mainly into other hands. The race against the progress of Axis arms and ambitions remained as cramping as ever. Both producers and buyers tried still to clock the race to fit their convenience, while the Japs crept south along the Chinese coast towards the rubber trees.

True, shortly after the agreement was signed, producers were permitted to exert themselves more fully—the operative quotas were increased first to 85, then to 90 per cent. Where the administrative regulations pinched hardest they were eased.

Shipment from the controlled areas responded to these measures. The flow of rubber became much greater than ever before. Shipments made during 1940 reached almost

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1.3 millions of tons—as compared with the previous record as follows:

### *Net Exports: Thousands of Long Tons*

1935	780
1936	797
1937	1,088
1938	779
1939	887

But the increases were not enough to fill the gaping demand. And quite contrary to the purpose that had moved the enthusiasts during 1940, only a small part of the rubber produced entered the American reserve stock. By the end of the year the Rubber Reserve Company had acquired a bare 84,000 tons, of which only 40,000 had actually been delivered in the United States; the rest was afloat or awaiting shipment.

The amount that came to market was still short of what could have been produced, had there been no control. Some rubber estates were in a position to provide more than their permitted allowance. But more important was the failure to secure the greatest possible supply from native growers. Some of these would have gathered more if allowed. Others found it more attractive to sell their export coupons to dealers that had supplies to ship, rather than produce the rubber—and either work at something else or not work at all. As this tendency became manifest, meetings were held in London and Singapore to correct it and to prepare the way for obtaining full native production.

But failure to obtain the utmost production was by no means the only reason why the American emergency stock grew more slowly than the need.

There was not at times enough cargo space to carry the available rubber. Stubbornly maintained steamship conference rules hindered the entry of additional lines into the rubber trade. Then part of the available space was filled with non-essential but more profitable products. As a consequence, the movement of rubber from producing areas to the United States was interrupted. The accumulation of stocks at shipping points, in turn, slowed the movement of rubber to the ports—and even the production of rubber. To overcome this shortage of cargo space the enthusiasts hunted for shipping. They formed, along with new entrants from the War Production Board and Maritime Commission, an informal group to secure shipping for the import of strategic and critical materials. At each meeting the enthusiasts forced the lax and indifferent, who remained scattered through the government, to take heed of the reports of unshipped strategic materials: they even incited courteous officials to use strong language in dealing with ship-owners and to upset profitable schedules. The Deputy Loan Administrator showed persuasive ingenuity in getting the tonnage he went after.

From the reviews of the shortages then begun, the American program of shipping priorities was born. But an account of the shipping crisis of this period and of the means by which it was met must be left to someone else. A black-haired giant from Tennessee, on leave from the Department of Government at Harvard University, could tell it best. His exuberant disposition of hemmers and hawers gave great satisfaction to the enthusiasts. They left a committee session with the sense of having tossed non-essential cargo overboard with bare hands.

Then there was also the fact that the demand of vari-

ous foreign buyers for the rubber produced during 1940 greatly increased. The British government finally lost its composure and became a more urgent buyer; by the midsummer of 1940 Britons saw that they faced a long and vital struggle to survive. That country had permitted its reserve of crude rubber to become very small—about three months' supply at a *normal* rate of consumption plus three months' forward buying commitments. At the end of 1939, total stocks of rubber within the United Kingdom were 24,000 tons; this would have enabled the island to keep its balloon barrage aloft, but hardly more.<sup>17</sup> The Canadian government also became an eager independent bidder for the first time.

But of the several reasons why the American reserve

<sup>17</sup> This was not the only commodity in regard to which Britain seemed to indulge in gallant neglect. Nor was it for the first time. Frank H. Collier, an official of the Ministry of Food during World War I, in his thorough but perverse account of the British food problem during that struggle, traces Britain's prolonged disregard of prior precautions. A Royal Commission had been appointed early in the century to consider the subject. On the character of its report Collier sardonically comments as follows: "Sir William Ashley in the Final Report of the Agricultural Tribunal of Investigation, has dealt faithfully with the strange conclusions to which the Commission were led by sheer inability to visualize the catastrophic convulsions of a world war. How could they be blamed for failing to anticipate that the whole maritime transport would be brought under the direction of the Government when the Admiralty declined to believe in the possibility of any serious interference with the British carrying trade? There is a touch of Jane Austen in their reply to the suggestion that dearness of food might impair the fighting spirit of the poorer classes: 'We believe in their patriotism and in their loyalty to the Constitution. . . .' Most interesting of all in the light of subsequent events, was their objection to any schemes which would involve the Government in the actual purchase and sale of foodstuffs." *A State Trading Adventure*, pp. 2-3. Did the Kaiser's submarine builders study this report?

stock grew so slowly during 1940 the most important was probably the enormous growth of current private American consumption and demand. The happy motorist rolled on and the American tire factories added shifts to keep them rolling. No restraints were placed upon the American consumption of rubber until June 1941. Consequently, manufacturers and dealers were constant ready buyers for all rubber in sight—not only spot rubber but future rubber.

They were able to obtain it because the Rubber Reserve Company failed to bid with dominating purpose for rubber, and then cling on to it as the nation's reserve. The price of rubber during much of 1940 was slightly above the maximum limit of the range at which—it was understood by the company when the Agreement was signed—rubber was to be forthcoming. The buyers of the Rubber Reserve Company stubbornly held to what they conceived to be their commercial right. They refused to bid above the specified maximum, while private American and foreign buyers did so.

This policy was defended by the opinion that such competitive bidding would be fruitless and merely stimulate further hoarding and speculation. It was influenced also by a sense within the Rubber Reserve Company that it was appropriate to avoid disturbance of private industry or encroachment upon commercial demand. It made for harmony and order in the conduct of buying. But it meant that private buyers got the rubber; the government did not. The dilemma could have been solved only by a centralization of American rubber buying; this was not done until June 1941.

The Rubber Reserve Company did not seem to appreciate that it had become primarily responsible for a vital

element in the defense of the United States. These buying policies had considerable equity but they did not deposit rubber in reserve stocks. They were certain to result in failure to build stocks unless chance allowed a longer period of grace than was likely. But within the circle of the Rubber Reserve Company cheerful assurance reigned. Frustrated warnings that were proffered echoed in the ears of their authors like peevish hysteria in that composed atmosphere of calculation.

The enthusiasts had the sympathetic understanding of the Secretary of State but could not excite his support for any sharp action that might embitter relations with a colleague. He commended patience and persistence. With these the attempt was made to convince the buyers of rubber that time was short and the future of their fellow-countrymen in their hands. Neither military events nor the issues that were forcing themselves upon the makers of our foreign policy would await the evolution of a rubber market to the taste of caution. London bridges were falling down.

The Federal Loan Administrator responded in July by a step that corresponded to his view that the chief source of difficulty was the failure to secure full production in the East. A second agreement was negotiated with the IRRC increasing the American contract for rubber to 330,000 tons. But this measure induced little immediate improvement in the rate of accumulation. During the gloomy days of October it became plain that in the absence of new initiative the government would acquire during 1940 less than half the amount that had been anticipated in the spring. And yet because of the price situation little rubber had been bought by the Rubber Reserve Company during recent weeks. Another note of



warning was placed by the State Department upon the desk of the Federal Loan Administrator to record a demand for further action that could not be ignored.

The Federal Loan Administrator responded again. The Committee was asked by him to increase the quota to 100 per cent for the first quarter of 1941 (and in substance to permit all individual growers to produce to the limit and sell all they could produce). These proposals were the most far-reaching that had ever been put forward. To win favor for them the Rubber Reserve Company showed itself ready to purchase still another 100,000 tons, which could be used to protect producers against any abrupt future decline of industrial demand.<sup>18</sup>

Still opposition was met within the IRRC. The British government was ready to accede to our request at once. But the Dutch representative stood out against any increase beyond 90 per cent. He feared as before the great dislocation in local conditions that would occur when our buying program came to an end. The reports received gave the impression that key Dutch officials believed the Far Eastern situation to be less dangerous than did the State Department. They seemed also to think that even if war should begin in the Far East and the usual shipping routes were temporarily cut off, the United States and the United Kingdom could live off their stocks for the time necessary to organize new shipping routes via India. The possibility that the producing areas might be conquered by Japan was not taken seriously into account.

The difference of opinion within the Committee was

<sup>18</sup> It was not found necessary to conclude this third agreement at the time. Its negotiation was deferred, but it was ultimately signed on March 7, 1941.

resolved only when the Committee's representative, who had been in Washington, returned to London with the third agreement in his pocket and acted as advocate for the American buyers. Before his departure he had been given a forceful impression of our earnestness. Both the Federal Loan Administrator and the Economic Adviser had warned him that unless the United States was enabled to accumulate a large reserve stock of crude rubber quickly, the American government would create a vast synthetic industry.<sup>19</sup>

The returned Englishman spared the Committee none of the American argument. Even so, the Dutch representative on the Committee proved that the Dutch can be stubborn. An appeal had to be taken to the Dutch Minister of Colonies who ruled in favor of the American request.

On November 28, 1940 the Committee established a 100 per cent quota for the first quarter of 1941. On tak-

<sup>19</sup>No significant beginning was made on a synthetic program until about five months later. Its history is summarized in the Truman Committee Report as follows:

"After some eight months of discussion between the National Defense Advisory Council, the RFC, and the Army and Navy Munitions Board, the first contracts for government sponsored and financed synthetic plants had been finally signed in May 1941. During the next two months or so, the scale of this program was stepped up from the experimental size of 10,000 tons to some 60,000 tons or more—which with the anticipated output of privately owned plants, created a prospect of having a total supply of about 100,000 tons a year.

"The enormous expansion of the synthetic program was undertaken only after Pearl Harbor; its further enlargement to giant size came after the fall of Singapore. By that time the huge size of war requirements was clear. The program was to satisfy a demand already pressing for satisfaction. No longer was anyone working to meet a conjectural need—with the risk of being fooled."

ing the step the Committee repeated its warning that certain of the producing areas would not be able to produce their full quota. This opinion turned out to be correct.<sup>20</sup>

There was a sense in Washington that everything necessary to take care of our wish for rubber had been done. Each drop of milky liquid that could be extracted from the rubber trees would, it was thought, now be provided with a ticket for its long journey to the United States. And production did leap forward; during 1940 it exceeded any previous record—almost 1.3 million tons. Vastly more rubber was imported into the United States during this year 1940 than in any previous; 811,600 tons were imported (as against 486,000 in 1939), and 114,000 tons were afloat at the end of the year on boats headed for the United States. But still American reserve stocks grew but slowly. When the computers made their rounds of the records at the end of the year they could find only 285,000 tons of rubber within the country—private and public; still far less than had been in the warehouses during the depressed years of peace.

It is a maxim of foreign policy that the obligations and risks assumed by a country should be kept in accord with its power to handle them. This axiom can in desperate times be stretched, as Winston Churchill proved. But the rubber enthusiasts who were watching the grouping of the German armies and the advance of the Japanese armies in China did not want to have to stretch it. Would a lack of rubber compel the United States to draw back

<sup>20</sup> The actual exports from the controlled areas during the first half of 1941 were about 80,000 tons below the permissible exports. Absorption in the United States during the same period exceeded the preliminary estimates that had been submitted to the Committee by about 100,000 tons.

from positions that otherwise seemed advisable? Or would it be compelled to accept an uncalculated risk that these positions might prove disastrous? At the end of 1940 the size of our rubber supplies stirred queries of this sort in the minds of both civilian and military officials concerned with our foreign policy.

## XV

### 1941 : RUBBER IN LARGE QUANTITIES, AT LAST



**B**UT better opportunity lay ahead. New production and exports now began to yield a generous margin over voracious demand. Relationship with producers became genial. Yet the American government had to continue its watchful exertions the first part of the year. The IRRC was agreeable to the maintenance of the 100 per cent quota. But production did not attain the permitted total. Our consular representatives in the East reported that it was still being retarded by certain administrative features of the regulation scheme; they surmised that some producers were still holding back rubber in the thought that war demand would ultimately bring higher prices. In March, therefore, advantage was taken of the visit of the Minister of the Colonies of the Netherlands to Washington. The story of our needs and anxiety was reinforced by clear warning that unless American stocks of rubber could be increased with extreme speed, the American government would build immense synthetic plants.

As of April 1941, the Rubber Reserve Company had bought only 131,500 tons of the 430,000 tons contracted for in the three agreements with the IRRC. The failure continued to be partly our own fault. The Rubber Reserve Company did not take full advantage of the chance to procure rubber for reserve; it still was given to the

practice of remaining out of the rubber market when the competition was severe. But the Company continued to insist that the only satisfactory solution was a further increase in total rubber production. The State Department, though believing this opinion to be biased and uncertain as to how much more actual rubber could be produced, readily threw itself into the effort to secure the utmost possible.

On April 4 a memorandum was given to the British Ambassador that faithfully reflected the views of the Federal Loan Administrator. It flatly placed upon the British and Dutch authorities responsibility for providing enough rubber within the agreed-on price range to enable the Rubber Reserve Company quickly to complete the purchase program. It asked adequate immediate action in view of the importance of rubber in the defense production of the British Empire and the United States and the great help given by us in similar situations faced by the British government. British war effort was being increasingly sustained by the output of American farms and factories. In helping us Great Britain would be contributing to its own survival.

The IRRC, not without misgivings, agreed in August to raise the quota for the final quarter of 1941 to 120 per cent. This meant a virtual suspension of restriction. The British and Dutch authorities bent themselves to overcome the remaining local obstacles to utmost production. The Rubber Growers Association, for example, issued a circular to all members emphasizing anew the obligation of producers to be ready sellers within the agreed-upon price limits. This circular affirmed that "the fullest flow of rubber to America under the agreements is a matter of extreme urgency at the present time to which the British

government attaches the greatest importance." And it added that "His Majesty's Government relies fully upon the continued acceptance and prompt fulfillment by all producers of these obligations."

There were strikes and a shortage of men to work on the plantations and in the warehouses and docks. A demand for rubber greater than ever experienced by the plantation industry came at a time when the producing areas were becoming aware of their danger and defense measures were being hastily improvised. This caused European personnel to be taken from supervision of rubber production for military duty at a time when labor was scarce and unsettled. Importation of workers from India might have offset this shortage; the authorities and producers hesitated to arrange this because peak demand might be short-lived.

Some native growers of rubber still preferred to sell their export coupons and rights rather than to produce the rubber that they were entitled to export. This could only be overcome by maintaining top quotas for so long a period that coupons and rights lost money value. Lastly, the existence of a 100 per cent excess profits tax in the United Kingdom caused certain of the large British estates to lack incentive.

All these circumstances combined to leave some rubber in the trees during the early part of 1941. The measures then taken greatly diminished, but did not completely end, their retarding effect.

Although the American government might argue officially that inadequacy of total current supply was the only important reason why its reserve stock grew too slowly during the first part of 1941, other reasons continued to operate. Important among them was the fur-

ther growth in demand from both old and new directions. Russian demand leaped upward as it fought to contain the German armies, and added itself to the growth in British and Canadian buying. And these foreign bidders were willing to pay a price for rubber higher than the maximum set forth in the agreements. We asked the British government to use its control over exports to reinforce the price maximum. It responded by arranging that all purchases of rubber for the USSR should be handled by the United Kingdom Rubber Control. *The awakening of Great Britain and the USSR to the extreme smallness of their rubber stocks was notable. In Washington the first perception came that the American stock pile might have to serve not only as the emergency reserve of the United States but for the whole of the United Nations.*

The buying practices of the Rubber Reserve Company remained too rigid. It continued to haggle over small price differences while other buyers did not. It continued to try to safeguard the country against two risks, not only one; the risk that war would come, and the risk that it would not come. British rubber circles did not fail to call attention to these characteristics of our official buying policy. As observed in April 1941 by the American Embassy in London, ". . . the Rubber Reserve Company is not prepared to buy at the upper limit but other American buyers are, and consequently, the latter get the rubber and the former does not." The Embassy conveyed several constructive suggestions; that the Rubber Reserve Company should assume the risk that shipping would be short and of destruction of rubber in ports while awaiting shipment; that it should bid openly and willingly the upper limit of the price range; and that it should buy sev-



eral months forward, as other buyers did. The Rubber Reserve Company acted upon these suggestions in part—though feeling itself aggrieved.

Finally in June, another long-overdue step was taken. All American buying was centralized. This ended competition between the private American buyers and the Rubber Reserve Company. The Rubber Reserve Company was, thenceforward, in a position to control the internal use of imports.

This was a promising accomplishment. But the rate at which current rubber imports were used up for non-essential civilian purposes grew more and more excessive. Failure in this matter meant that the effort to procure rubber from the East served every other wish except the one that impelled the enthusiasts. The situation was, as described in a publication of the Department of Commerce early in 1941, “. . . motor vehicle producers operated at an unusual rate to supply car buyers who feared production would be restricted and prices increased, and this situation was reflected in abnormally high demand for original equipment tires. Then in April (1941) tire distributors began buying more heavily, and in May total tire shipments set a nine-year high record—apparently both car manufacturers and distributors tried to build stocks against the possibility of government restriction of rubber consumption.”

Average monthly consumption of crude rubber within the United States was 38,000 tons in 1938; it rose to 49,000 tons in 1939; to 54,000 tons in 1940 and to 64,000 in 1941. During the months of April, May, and June 1941, it averaged 75,000 tons; the month of June set a record of 85,000 tons. Small wonder that all effort sometimes seemed futile. And it is easier to understand why

## 82 RUBBER BEFORE PEARL HARBOR

on June 21, 1941, a year after the first agreement was signed, the Rubber Reserve Company had bought only 175,000 tons of rubber out of total world exports in the period of over 1.4 million tons.

The first corrective step taken by the Office of Production Management on June 21, 1941, was both too little and too late.<sup>21</sup> It applied only to the use of the crude and synthetic rubber; the use of reclaimed and scrap rubber remained free. The degree of restriction was altogether too small.

The Economic Adviser again felt compelled to assume an active role in trying to reduce the squandering of the precious cargoes obtained by "night work." The Secretary of State agreed that it was necessary for the Department to assert itself because of the extending gravity of the burdens and risks that the United States was assuming.

On July 28 the Economic Adviser tried to persuade

<sup>21</sup> General Preference Order 15. Each manufacturer was merely required to limit consumption during the last half of 1941 to a fixed maximum percentage of the average amount of rubber that he had consumed during the year ending March 31, 1941. This had been a period of record high consumption; the percentages of permitted use were high, beginning with 99 per cent of the base period rate for the month of July 1941 and gradually declining to 80 per cent by December, 1941.

Compare the comment of the so-called Truman Committee. (Report No. 480, Part 7, 77th Congress, 2nd Session, May 26, 1942.)

"As early as June 1940 the Rubber Reserve Company started to accumulate a rubber stockpile and to plan a synthetic rubber industry upon the advice of the Army-Navy Munitions Board. However, at the same time, the National Defense Advisory Council and the Office of Production Management permitted a frenzied increase in rubber consumption. It was not until June 1941 that an over all conservation order was issued by the Office of Production Management. As pointed out in the portion of this report dealing with the acquisition of a rubber stockpile, this order did not effect any substantial conservation until October 1941."

the Deputy Federal Loan Administrator to use his influence to end the profligate use of rubber. At that moment the State Department was negotiating agreements with many Latin American republics under which these countries undertook to sell to American buyers, and solely to American buyers, their total production of strategic raw materials, including rubber. In order to induce these countries to forego alluring offers from Axis buyers, it was necessary to appeal not only to their friendship but also to their sympathy in the fight against the Axis. It was one thing to ask them to sacrifice substantial sums in order that the American, British, and Russian jeeps and planes might have tires; it was another thing to ask them to do so in order that Americans could picnic on the beach. The Deputy Federal Loan Administrator listened to the story with sympathetic but inert ease. He was reluctant to use the financial powers of his office to determine what use was made of imports. Such action, the Deputy Federal Loan Administrator averred, was in the realm of responsibility of other branches of the government. As long as they did not cut the use of supply for civilian use more, the Federal Loan Agency, he thought, was not justified in doing so by use of its buying power.

The comment of the Economic Adviser in the report submitted on this incident to the Acting Secretary was not intemperate:

"In a field in which this country is already suffering seriously from shortsightedness in the past, should we find ourselves at war this contemporary practice would prove to be another extremely serious instance of shortsightedness.

"It is one of which the State Department can properly take cognizance, for foreign policy must be vitally affected. . . ."

The Acting Secretary of State did not have to be persuaded. By letter, the President was urged to instruct the various government agencies named (care was taken to include all that might be concerned) to make sure that the importance of preserving rubber for our stock piles was not neglected. Shortly thereafter the Acting Secretary of State succeeded where the Economic Adviser had failed. He convinced the Deputy Loan Administrator that, without regard to ordinary lines of responsibility, the situation must no longer remain uncorrected. Both officials wrote letters to the then Director General of the OPM, vigorously urging that consumption be rigorously controlled.

These messages evoked only a flurry of discussion in the OPM. That organization, created to carry out the industrial preparation for our defense, merely watched and waited, hoping to avoid the unpopular action. The anger of the enthusiasts was expressed in still another report to the Secretary of State. By that time this government was on plain notice that Japan was losing hope that this country might be frightened or wheedled into acquiescence, and was liable to strike at any time. The Secretary of State wrote again to the Director General of OPM, remarking in part that:

"If our imports are constantly consumed in current production and in a large measure by civilian use, as appears to be the case today with many commodities—such as chrome, manganese and rubber—our situation will remain as grave in the event of a war emergency as though we had never made an official effort to import supplies of these materials.

"I believe it would be a great mistake now to put aside our stockpile idea and to refrain from making every effort com-

patible with the most urgent considerations to the contrary to build up stockpiles of supplies entering this country.”<sup>22</sup>

Hesitation at that late date was frightening. The need for effective co-ordination between defense production and foreign policy had grown more and more glaring. The United States was in immediate danger of finding

<sup>22</sup> The lack of clear understanding as between the several departments of government in regard to their respective responsibilities for assuring sufficient supplies of raw materials for defense had been one of the reasons that had prompted the Economic Adviser in the previous spring to urge the creation of a Cabinet committee to supervise and co-ordinate activity in this field. The suggestion had contemplated a group which would have brought together the Army and Navy, the Federal Loan Agency (which had the funds and authority to do the buying), the OPM and OPACS, which could control the use of the raw materials, and the State Department, which ordinarily took the burden of any difficult negotiations for foreign governments. It is almost certain that had these other agencies become active participants in the execution of the buying program, they would have grown more fully aware of the difficulty of acquiring sufficient supplies, and more inclined to preserve them. But the Federal Loan Administrator thought such a group would hinder, rather than help, the program. He did, however, proceed, as a consequence of these discussions, to establish closer informal relationships with OPM and OPACS. Not, however, until formal and grave presentations were made to these organizations by the State Department were they moved to any effective action.

The proposal for the creation of a combined group to supervise the acquisition program was given effect, in form, in the creation of the Board of Economic Warfare in December 1941. Close interdepartmental consultation was also brought about through two informal but most faithfully working committees. One of these met with the Deputy Loan Administrator to review the progress of our raw materials program, to consider measures for conservation, to deal with shipping difficulties and to arrange for centralized buying and the like; the other met to formulate and apply the system of priorities for shipping and shipping space at first without clear legislative authority and later with definite authority.

itself at war without the means of fighting it successfully. The positions that we were holding and the actions we were taking were placing us directly in the path of the Axis. The American government had assumed responsibility for the protection of Iceland. Our naval and air patrols were sweeping over larger and larger stretches of the ocean. New steps were being taken and planned to augment the military forces in the Philippines. Item by item we were placing an embargo upon the sale to Japan of raw materials of military use in short supply. This was during July extended to such vital products as scrap iron and high-grade gasoline. On July 25 all Japanese assets in the United States were frozen by Executive Order. The Japanese government had put us on plain notice that it regarded these actions as deliberately unfriendly.

There was every reason for the whole nation to devote itself to preparation for war. But, during the summer of 1941 we were still far from employing our full productive power of men, machines, and resources. We were permitting much productive effort that should have been devoted to defense to continue to serve ordinary civilian uses. The lag in reserve rubber was part of a very much broader lag.

The agitation of the enthusiasts did not have any actual result, however, until after Pearl Harbor. Then, and only then, stringent rules were imposed on the use of rubber.<sup>23</sup> The inadequacy of the previous control is proven by the fact that monthly consumption even during the second half of 1941 was greatly above the average of previous years, and much of this rubber was used up in ordinary civilian pursuits. True, the new tires placed on many cars

<sup>23</sup> Then the OPM General Preference Order M15 was replaced by supplementary General Preference Order M15B.

during this period of aggravation later enabled war workers to go about their business; the suction from the stock pile did not turn out to be all waste.

These rules imposed in December brought to an end the dissipation of the scarce crude rubber for nonessential uses. The sinking of the fleet at Pearl Harbor had at least convinced everyone that we could no longer gamble upon the future of our rubber supply. The conquest of the rubber-producing areas by Japan during the next few months showed how much too far and much too long we had ridden upon air covered with a thin coating of rubber.

## XVI

### HERE WAS THE STOCK PILE



THE enthusiasts could feel a few months before Pearl Harbor that the movement of rubber from the East was at full tide—despite a sporadic shortage of shipping. The necessary purchase arrangements had been concluded, the necessary reforms in buying practice had been achieved, and all restrictions and restraints on production and export had, in effect, ended. On this last matter a little backward tracing is required.

In August, as related, the IRRC had agreed to raise the quota to 120 per cent. But one final skirmish was required to hold this position. For in November the Committee seemed inclined to take the view that this extraordinary quota was temporary and should be reduced. This inclination emerged even though by that time the Rubber Reserve Company was prepared to acquire a total reserve stock of 800,000 tons (in addition to the barter rubber). The Committee recognized that this offer gave assurance that all the rubber that might be produced during 1942 would be bought at a satisfactory price. But it imagined possible ruin for all producers if by the end of that year the United States was still at peace and in possession of a reserve stock of a million tons or more of rubber. Protection was sought against such an eventuality of a kind that the Rubber Reserve Company could not proffer.

A compromise was easily reached in the atmosphere of



mutual anxiety. The Committee agreed in December to continue the 120 per cent quota into 1942. The Rubber Reserve Company signed a fourth agreement, superseding all others and increasing our total purchases to 800,000 tons. It promised also to co-operate with the Committee "in the maintenance of a reasonably stable world market for rubber that would enable the producers thereof to secure a reasonable profit."

Actual production during 1941 fell short of the permitted quota. But both production and exports broke all records—over 1.4 million tons. The United States secured a very great part of all that was produced. Imports into the United States greatly exceeded those of any previous year; over one million tons of rubber entered our ports. Despite extravagant use, 250,000 tons of this incoming rubber was added to the government's reserve stock.

The extreme effort to produce and export rubber went on as long as the plantations were free and there was a port open and a ship that could still get out of harbor. By March 1942, the stock of rubber in the possession of the government was about 400,000 tons and about 100,000 tons were still afloat on the way to the United States. Private stocks were about 150,000 tons. These together became the indispensable reserve for the United Nations. Their existence made it possible to carry out the war production program, to tide us over the long period of construction of synthetic plants, and to provide the necessary minimum of crude rubber for mixture with synthetic.

In the end, the effort thus succeeded in providing the minimum essential of security during the tense period in which American combat power was being organized—despite the loss to the enemy of the rubber-producing

areas. The supplies accumulated during the final, almost too late, spurt of effort were enough to enable our armed forces to fight their first battles and arrest the Axis march. They helped to provide the time in which our enemies could falter, then blunder, while the United States equipped its forces for swift and heavy blows.

EPISODE NUMBER TWO

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*The Government Gives Attention to the  
Oil of the Middle East*



# I

## THE CYCLE OF WAR AND FEAR



THE American attempt to accumulate reserve stocks of rubber was an attempt to obtain security by forehanded national action. The product was essential, the sources of supply distant and difficult of access in the event of war. The concern of the United States about oil has been and remains the same—to assure adequate supply in the event of emergency.

But nature has compelled the self-protective effort to take a different turn. Rubber is cheaply and satisfactorily stored in great quantities. Oil is not. There is only one good storage place for immense amounts of oil—underground in the pools in which they are discovered. It has been taken for granted—and this narrative is an account of the events flowing from that conclusion—that American interests must have actual physical control of, or at the very least assured access to, adequate and properly located source of supply. Thus the search for oil has taken the United States much further into the diplomatic maze than rubber.

American alarm over its oil situation has twice broken out after participation in great wars. The navies which cut off Germany from the overseas world during World War I and safeguarded the flow of war materials to the allied armies were for the first time oil-burning. They had been forced to rely mainly upon the great developed

oil fields of the United States. The performance of the airplane during the closing months of that war gave alert minds a sign of the part it would play in future warfare. The conception of mechanized armies began to enter serious military treatises. That an adequate supply of oil was a vital element in military power was one of the most easily read lessons of the war.

Recognition of this fact coincided with reputable prophecies that the underground oil reserves *within* the United States were near exhaustion.<sup>1</sup> Disturbed, the American government concluded that it was essential that American interests should secure possession or control of reserves in foreign lands. The Department of State carried out during the twenties a stubborn and successful campaign against British and Dutch opposition to make way for American enterprise. The first great acquisitions by American companies of rights to develop oil fields in Iraq, the Netherlands East Indies, Colombia, and Venezuela date from that era.

The same cycle of perception and fear repeated itself during the war which has just ended. We are now again engaged in a clamorous campaign of the same kind as the earlier one. The most significant phase of that campaign—which is on the current diplomatic calendar—centers in the Middle East. There we enter strange territory, troublesome lands, and encounter suspicious rivals. What of our rather stumbling course thus far?

<sup>1</sup> Eminent geologists in 1919 published estimates that underground reserves of the United States would be sufficient only for six to ten years of average past consumption. The more moderate expressions of opinion of that tenor is illustrated by the comment of George Otis Smith, Director of the U. S. Geological Survey in 1919, "the position of the United States in regard to oil can be described as precarious." A similar estimate was sponsored by a committee of Cabinet members as late as 1926.

## II

# THE PETROLEUM ADMINISTRATOR FOR WAR ASKS A QUESTION



**PUBLIC** interest affects officials like an electric eye. When it transmits an impulse, the mental gates slide open. In the early part of 1943, they parted to admit anxiety over the future of our oil situation.

The American people had grown accustomed to profusion in the complacent belief that they would always have enough oil for every purpose. Suddenly they found themselves short and informed that domestic supplies after the war might be deficient even for military needs. The United States—so the alarming conclusion traveled—was about to become dependent upon other countries for oil; in that event American security, power, and freedom of action would be in peril.

This ominous thought was drawn from sudden startling reports about the drain upon our underground supplies. Articles and charts appeared in technical and popular journals under names that were taken to mean knowledge—to the effect that the United States was consuming known domestic reserves faster than these were being replaced by new discoveries.<sup>2</sup> An impression spread of de-

<sup>2</sup> In almost every year between 1928 and 1940 new discoveries or extensions of earlier ones within the United States had been computed to exceed withdrawals. The accepted estimates of proven reserve in the face of earlier gloomy predictions had increased from about thirteen billions of barrels to twenty billions

feated search in swamp and sagebrush; a vista painted of deep, dry holes at the end of long days of frantic drilling.

The events in which the American people were then sharing disposed them to attach grave significance to this possibility. Wartime demands were taxing the resources and energies even of a nation that had learned to suck oil out of the ground with extreme skill. The ships that were feeding the fighting in Europe and Africa, the trucks that gave movement in battle, the tanks that gave crushing force, and the planes which were bringing German cities down in ruins were all fueled by oil. Most of that oil was coming from under the American soil. Each ship, truck, tank, and plane that came out of the hands of its builders was an added claim against American underground re-

of barrels. The increase, however, was partly "discovery by the pencil rather than the drill"; that is, the consequence of revised estimates of the contents of known fields. This trend began to reverse itself in 1941 despite the extension of search and exploratory effort.

Simultaneously, withdrawals from American resources increased markedly during the war period from about 3.2 million barrels per day to almost 5.0. All experience indicates a large permanent increase of consumption as compared with the pre-war period.

How easily confusion is introduced into reports of the situation is illustrated by the testimony given by Charles P. Rayner, Petroleum Adviser in the State Department, before the Special Senate Committee Investigating Petroleum Resources. He stated that, "Since 1934 the curve of new discoveries in the continental United States (excluding additions to and extensions of known fields) began to turn sharply downward. While the aggregate proven reserves on successive year-end dates were greater in each successive year, the annual increment to reserves was a diminishing one." But within a very few minutes the witness was talking to the Committee of "our diminishing domestic reserves," apparently unaware of the transition in meaning. Hearings, June 27 and 28, 1945, *American Petroleum Interests in Foreign Countries*, pp. 1-2.



serves. German armies in the east had captured the oil of Rumania and two of the important Russian fields. For a time it seemed likely that they would capture the other Russian fields and close in upon the fields of Iraq and Iran. During anxious months it seemed possible that all the ships and forces of our Allies, as well as ourselves, no matter where located, would become *wholly* dependent upon the oil resources of this hemisphere. And even there the movement of supplies from the Caribbean to the United States had been brought to a stop by German submarines. Oil, enough oil, within our certain grasp seemed ardently necessary to greatness and independence in the twentieth century.

At the same time, American civilians were feeling the inconvenience of shortage in their daily lives. Petroleum products were rationed. There was not enough even for important errands. More critical shortages were being avoided only by the intense joint effort of the industry and government to force every field to yield its utmost, and by the construction in great haste of new means of transportation.

The vastness of that effort quickened many minds to wonder how long it could be continued, and how much oil would remain for later days and other emergencies. Would nature continue to provide us with supplies for world-wide battle and have enough left over for peace? In whose hands would the great foreign reserves be when the struggle ended? Questions of this kind crept with increasing insistence into the thoughts of all who followed the great outflow of American oil.

These questions were legitimately born. They properly commanded the attention of the government. But

they were baptized in the fluid of foreboding and were darkly dyed. The credulous reader of the more excited stories received the impression that the United States was about to be compelled to return to the bicycle and brougham, and beg or fight for oil. Of the many interpretations to which the known facts were subject the disquieting were favored. The reasons for retaining confidence that the United States would long have an ample supply of oil were gloomily appraised.

The current lag in the discovery of important new fields in the United States was not of proven permanent significance. It might be transient. When the oil industry was again able to secure equipment and men the trend might be reversed. There were large areas held in reserve by the oil companies and in the national domain to be more thoroughly explored. There were deeper sands to be drilled, other geological structures to be tested. There were improved methods of recovery to be employed.

Even though all these should fail to sustain domestic reserves commensurate to rising demand, sources of supply outside the United States were great and numerous. American enterprise was well established in many of them. But during the first shock of deprivation, the usefulness of foreign sources of supply was discounted. Traffic on the sea might be stopped.

Besides, oil producers were dejected about the future prospects; they were unsure about the wisdom of expanding operations in Latin America. Mexico and Bolivia had recently expropriated the American companies that had produced oil in their territories. Brazil was restricting the rights to own and develop its oil resources to its own nationals. Argentina was striving to confine the

American oil companies in that country to a minor place. The view seemed to be spreading throughout Latin America that oil deposits should be nationalized, and foreign interests squeezed or excluded. The same dismal doubt briefly affected plans for future operations in the two most productive of the countries, Venezuela and Colombia, despite the evidence of rapidly increasing profit.<sup>3</sup> This particular worry soon passed as the local governments showed their fair intentions; but it coincided with the worst twitches of anxiety over other features of the situation.

A few of the calmer observers of the outlook tried to remind the country of two other reasons why the situation, though disquieting, did not warrant excited fears. A large part of the possible oil-bearing areas of the world had not been explored and were inviting American enterprise. And we now knew how to make all petroleum products—if need be—from natural gas, shale, and coal; all these the United States possesses in great quantities. The first was ignored as conjectural, the second as costly.

All the uneasiness found expression in the question launched by the Petroleum Administrator for War: would the United States be able successfully to “oil another war”? He may have intended the query as a stimulant to action rather than an expression of anxiety. But fears clustered about it, and more frightening utterances competed with it for attention; as, for example, that of the junior Senator from Georgia upon his return from a tour

<sup>3</sup> South American production in 1945 was about 1,200,000 barrels a day (almost a quarter of the production in the United States) as compared with 671,000 barrels a day in 1938.

of the Middle and Far East: "Up to now we have been depleting our petroleum stocks at a ruinous rate, supplying not only our own forces, but those of our Allies. It is high time to utilize the petroleum deposits of other parts of the world. Otherwise, the end of the war will find our own deposits practically exhausted."<sup>4</sup>

The strength of the nations was being deployed for great battles on foreign soil. Was the United States to emerge from them with this vital item of energy spent

<sup>4</sup> The text of his address and that of his fellow Senators on the tour is given in Report 10, Part 15, of the Special Committee Investigating the National Defense Program, 8th Congress, 2nd Session. There was at the time a widespread opinion in the United States that the great rate of use of American oil and the insufficiency of supplies for ordinary civilian use was in large measure due to laxity in supplying other countries with oil on a Lend-Lease basis, and failure of other countries, particularly Great Britain, to draw fully upon the resources they controlled. In the *Thirteenth Report to Congress on Lend-Lease Operations* (for the period ended Nov. 30, 1943) the whole field of oil supply for war is examined with lucid care, and the facts were correctly explained and interpreted. It concluded that "in the future, as in the past, the petroleum resources of each of the United Nations will be utilized in its own direct war effort and the combined war effort, in proportion to the maximum ability of each to produce and efficiently deliver the petroleum products needed in the prosecution of the war." (p. 45). Secretary Ickes informed a committee of the Senate: "The truth is that American and British oil resources have been employed jointly from the beginning of hostilities. Our plans have been developed in close collaboration and with a view of making the most effective use of the available oil and facilities, wherever located, and regardless of ownership. The British and American contributions may have been unequal; but they have not been inequitable. . . ."

The dangers of German destruction or conquest of Middle Eastern oil fields and refineries, the virtual closing of the Mediterranean to tanker transport, and the length of the sea haul from the Persian Gulf to western Europe combined to confine the usefulness of Middle Eastern oil mainly to nearby military operations and safely accessible points until 1943-4.

while other countries grasped the remaining undeveloped sources of supply? Would the country, like a mutilated and decorated veteran, find itself upon the return of peace dependent on the benevolence of others? Such thoughts stirred an impatient wish for protective action.

### III

## THE AWESOME OIL OF THE MIDDLE EAST



IN all surveys of the situation, the pencil came to an awed pause at one point and place—the Middle East. There, under the ground between the Mediterranean, Red, Black, and Caspian Seas and the Persian Gulf are oil resources as great as, or perhaps greater than, those of the United States.<sup>5</sup> Stolid geologists flew over the structures

<sup>5</sup> Before the war, the contribution of the Middle East to total world supply was small, about five per cent. This was due to many factors; lateness of discovery, remoteness from main markets, political uncertainties, the invested interest of certain of the companies that held the concessions in other sources of supply, customary price arrangements. When the danger of Axis bombing and perhaps actual conquest of the Middle Eastern fields passed, production was stimulated in various fields and great enlargements of refinery capacity were undertaken. The opening of the Mediterranean made it more feasible, of course, to draw upon the oil of this area for combat operations. Total production in the area in 1945 approximated 575,000 barrels a day, as compared with 333,000 in 1938. During 1946 it is expected to reach almost 700,000 barrels.

Mr. Charles W. Hamilton, vice-president of the Gulf Oil Company, in the Hearings already cited of the Special Committee of the Senate Investigating Petroleum Resources, gave the following comparison between the rate of use thus far of United States and Middle Eastern oil resources and the present estimated reserve situation p. 54:

	From U. S.	Near and Middle East
Per cent of World's Estimated Cumulative Production through 1944 . . . . .	63.8	3.8
Per cent of Estimated World Reserves as of Beginning of 1945 . . . . .	32.0	41.1

outlined in the desert sands, and thereafter spoke as men who had been granted a peep into the bounties of creation.

The identified fields lie within the territorial domains of numerous small Arab kingdoms, mandates, sheikdoms, or protectorates. Concessions to explore and develop these fields are shared between the great companies that carry on the international commerce in oil. Three decades of business and diplomatic arrangement have resulted in an intertwined pattern of ownership, partly above ground and partly underground, like the tough roots of the bittersweet vine. The oil enterprises and connected financial interests of different nations work in combination in some parts of the region, manage under a flag of truce in other parts, and compete for existence in still other parts. Some American companies are in virtual partnership with British, Dutch, and French companies; others are rivals with them.<sup>6</sup>

To a number of fields—all of great promise—certain American oil companies hold exclusive rights.<sup>7</sup> The

<sup>6</sup> A convenient summary of the division of main details of corporate ownership and political connection is to be found in a short study by the author, *Petroleum and American Foreign Policy*, 1944.

<sup>7</sup> The original concession for Bahrein had been acquired by a British group. This was purchased by the Gulf Oil Company, which, however, was not free to proceed with its development because of reciprocal obligations into which it had entered with participants in the Iraq Petroleum Company. It therefore transferred the concession to the Standard Oil Company of California, which assigned it to a Canadian subsidiary—the Bahrein Petroleum Co., Ltd. The State Department helped company officials to clear up hindrances which were at first interposed by the British Colonial Office to American entry into this field.

The concession to Kuwait was also acquired by the Gulf Oil Company from the same British group. The consent of the British government was required for the transfer of any petroleum rights

Arabian-American Oil Company (owned jointly by the Standard Oil Company of California and the Texas Company) have a concession to develop the underground reserves of the vast oil-bearing areas of Saudi Arabia. That largest of the Arab countries stretches out between the Red Sea and the Persian Gulf, and lies south of Palestine and Iraq. This same American partnership also controls the excellent, though smaller, field on the nearby island of Bahrein in the Persian Gulf. Another American company (the Gulf Exploration Company) holds a one-half interest in still another important field in the neighboring Arab sheikdom of Kuwait. Given certainty and a sustained demand, these three sources could, in time of peace at least, provide all the oil that the American people might need and be willing to take. But they are located in primitive Arab states in the path of both local political showers and world-sweeping political cyclones. And they lack large assured markets and a cheap transport route towards Europe and the Western World.

The Arabian-American Oil Company has had a tranquil and thriving experience in Saudi Arabia. The sovereign, Ibn Saud, who granted the concession, was welcoming and eager to see the enterprise expand. A good name and friends have been gained among the local people. Before the war its production was small; but in 1943 a much increased war demand was within sight, and every

in Kuwait to any foreign interest. The Anglo-Iranian Company was interested in the field. In 1934 a partnership was arranged between this company and the Gulf Oil Company.

The first concession in Saudi Arabia was granted by the ruler of that kingdom to the Standard Oil Company of California in 1933. In 1939 by supplemental agreement its area was greatly extended. Both contracts were ratified by royal decree.



drilled well extended proof of the greatness of the oil resources within the company's control.

Despite these omens of favorable future fortune, the executives of the company were not at ease. Their words, as they conversed with government officials, unlocked a storeroom of worries.

They felt that their operations were at the mercy of British diplomacy, at a competitive disadvantage, and at the hazard of local disorders and levies.

British diplomacy had long been paramount in most of the Persian Gulf region where it had skillfully maintained British interests against rivals. It had acquired the right to supervise the foreign relations between many of the small Arab states in the neighborhood of Saudi Arabia. The scouts of the American oil companies when entering this area had at times been made to feel unwanted; they had been compelled to pay a fee to the influence of Whitehall. They feared that the British would not, if it could be helped, permit them to develop their operations in Saudi Arabia undisturbed. This fear defied the many signs that the sovereign was determined to repel all foreign attempts to rule his mind or actions.

The heads of the oil companies were not wholly sure that the favor shown to American interests might not someday be withdrawn. They longed for assurance that the signed concessions should have a stronger basis than the will of a mortal and impetuous ruler—preferably the assured support of the American government.

The company officials also had convinced themselves that the British government was readier than the American to make opportunity for its own national enterprises; to provide subsidies to local sovereigns, and so ease their

way. This attitude had been espoused by a group of touring Senators, who reported to the Senate that:

"Although private American enterprise is responsible for discovering these [i.e. the Middle East] rich resources, relatively unprotected by American diplomacy, it is operating in an area where the British influence has been and still is considered paramount. American companies are not dealing with private interests but with the governments of the countries involved. They are competing either with the British government itself or with companies working in close association with the British government. . . ."<sup>8</sup>

The Arabian-American Oil Company faced competition with two large combinations in particular, the Anglo-Iranian Petroleum Company (controlled by the British government) and Iraq Petroleum Company (of which Anglo-Dutch interests own a majority). These were well established in the great oil fields of Iran and Iraq—serving the best established markets for Middle Eastern oil. The owners of the Arabian-American Oil Company did not think that these rivals would readily make place for it. Welcoming acceptance of new competition is not the rule in such business situations; in fact established enterprises have been known to feel satisfaction in the troubles that may beset new entrants. Anecdotes of the rebuffs met during the early American efforts to enter the region and of the coolness of the local British officials seemed to the listener to have grown almost into cherished memories. At any rate, suspicion that seemed to exceed the ordinary alertness of business rivals existed. It was purveyed in Washington.

<sup>8</sup> *Additional Report of Subcommittee of the Special Committee Investigating the National Defense Program. Section 1—"Petroleum Matters."* 78th Congress, 2nd Session, Report No. 10, Part 15.

Worry over local circumstances was also reflected in the catalogue of anxiety through which the oil company officials ran. The men that guided the Arabian-American Company through its first years had become acquainted with the history of local tribal rebellions and forays—especially in Iran. They feared a recurrence of such threats to their operations. They had learned from talk and memoirs the great relief felt by the British oil men who did the early drilling in Iran, of their relief when the British government became a partner in their business. They longed to feel the same glad certainty that Sir Arnold Wilson, a British political officer who had much to do with sustaining the original Iranian concession, had recorded in his diary, “I have read with intense interest of the acquisition of a controlling interest in the A.P.O.C. (Anglo-Persian Oil Company) which will now have no difficulty.”<sup>9</sup> In the magnificent area of its concession, the

<sup>9</sup> Sir Arnold Wilson: *A Political Officer's Diary—1907-14*, p. 290. The volume gives an extremely interesting account of the state of tribal relations during this period. It also recounts how close the English owners of the original concession in Iran came to quitting work upon it—being persuaded to go on by an embittered geologist and an alert local government representative.

Sir Arnold Wilson, no doubt, would have found vindication for his judgment in the action taken during August 1946, by the British government in sending troops to Basra, Iraq, just across the river from Abadan, the center of disturbances affecting the operation of the Anglo-Iranian Company. The Indian government announced that this measure was taken “for protection, should circumstances demand it of Indian, British and Arab lives and in order to safeguard Indian and British interests in South Persia.” Serious fighting between Arab employees loyal to the company and others reported to be members of the extreme left wing had broken out during a strike—over conditions of work and housing. The British Foreign Office simultaneously informed the Iranian government that it would be regarded as responsible for the safety of British lives and property. *New York Times*, August 3 and 7, 1946.

dream of the drill could be made to come true. If only it could be secure against the schemes of rivals, the whims of sovereigns, the raids of plunderers!

And, it may be added, from the risk of having to lay out large sums not in production, but merely to preserve its opportunity. For several years the treasury of Saudi Arabia had been in deficit. Unusual defense expenditure and rising costs of imports increased expenditure, while drought and the loss of revenues from the pilgrim traffic to Mecca reduced income. If Ibn Saud failed in his payments to tribal leaders, disorder or rebellion might result. Or Ibn Saud might turn resentfully against the American company that had failed to save him from such troubles. The British government had made various periodical advances to him, as to many other Arab leaders. But these scared rather than pleased the American oil company. The Arabian-American Oil Company had, itself, as of 1943, advanced some seven million dollars against future royalties. In order to retain the full future co-operation of the sovereign it might have to advance substantially greater sums. For the time being, production was small. Unless it was helped to earn greater income or spared the necessity of making further loans, the Arabian venture might turn out to be a costly burden to the parent companies back home.

Still further food for uneasiness was found in the fact that Saudi Arabia was a new state. The peaceful succession of power from Ibn Saud, in the event of his death, to one of his many descendants, was not guaranteed by past history. Even if this were achieved, the kingdom that he had riveted together might not be maintained under his successor.

And lastly there were the unpredictable currents of

war. Who knew where the armies of Britain or Russia might end up? The group of Arab kingdoms had emerged from the dissolution of Turkey at the end of the last war; who could foretell their political orbit in the midst of this greater struggle?

Such were the worried thoughts of the men who held the right to draw upon the great golden pools of Saudi Arabia and Bahrein. Light is the spirit of the driller, dark the thoughts of the owner of the treasure.

## IV

### HOW BEST TO PROTECT THE AMERICAN POSITION ?



**D**URING the late spring days of 1943 these anxieties travelled their murmurous way along the air-conditioned corridors of the Navy and Interior Departments, and filtered through the latticed doors of the State Department. They found an audience in the dingy, square room where the Economic Adviser met with his colleagues on the Inter-departmental Committee on Petroleum Policy. This group was composed of representatives of the State, War, and Navy Departments, and the Petroleum Administrator for War. Its assignment was to keep informed regarding international oil matters, to formulate policy and suggest action in regard to the future American oil position. Whether and how best to extend aid to the American oil companies established in the Middle East became the most absorbing concern of this group. The maps of these remote lands allured, the tales of the company officials excited, and the geologists' reports impressed.

Some of the dangers to which, it was suggested, the American enterprises in Saudi Arabia, Bahrein, and Kuwait were exposed seemed to be outdated. They were imprints left by the earlier struggle to gain admission into a secluded and guarded area. Diligent questioning revealed little more than a state of mind.

There seemed to the Economic Adviser scant or no evidence that either the British government or the British oil companies would exert themselves deliberately to oust or gravely injure their American rivals. It seemed more probable that—while stubbornly taking care of their own interests—they would find it best to accommodate their activities to the American newcomers. Scotsmen—and they are important in the international realm of oil—are calm and measuring men, not likely to misjudge consequences. It was less possible to have an opinion as regards the ultimate stretch of Russian action. The long sustained wish to have free and assured access to (if not actual control of) a port on the Persian Gulf was not forgotten; in fact, it was deemed certain that it would revive. But even so, it seemed unlikely that in order to achieve that end, or in the course of doing so, the USSR would seek to disturb or dispossess American oil rights so far along the Persian Gulf. The indications were that it would seek rather to secure oil rights nearer at hand, and most probably in Iran, for itself.

Of the various possible local dangers, disorder on the part of the tribesmen seemed to be vanishing. Before many years it would take its place in the movies along with stage holdups in the American West. Nor was there any sign then that Ibn Saud's welcome of American enterprise was growing thin. The dispute over Palestine had not begun to cast even a faint shadow. He seemed clearly to desire an extension of its operations, and therewith an increase of his royalties. Nor was there any rumor that his leadership was threatened. There had been no labor troubles between the company and its workmen up to that time; the Economic Adviser was awakened by subse-

quent events in Iran to the possibility that they might be sympathetically incited as part of an attack on all Western interests.

Some of the fears of the companies, in short, seemed subject to discount. Still there appeared to be ample reasons to find means of assuring the American companies undisturbed control and a fair chance to prosper. American control would mean more rapid development, greater responsiveness to the ideas of the American government, cheaper oil. It might, though it was not clear how, improve the chance that this source of supply would be available in the event of another war. Discussion within the committee centered on what measures could accomplish our purpose while causing the least disturbance to foreign governments or competing oil companies. The task, as the Economic Adviser understood it, was to find measures sufficient to the end—which could not be construed either by the Arab world or by our war allies as unfair or threatening.

The owners of the Arabian-American Oil Company had made a proposal that appealed to the Economic Adviser. They offered to grant the American government an option to buy a great quantity of the oil that lay underground in Saudi Arabia whenever it might choose to do so, at a discount from the market. Until wanted, the oil would remain underground. The company would see that there would always be enough to meet a government requisition; it was sure that there was more oil underground than could be sold during the life of the concessions.

This offer, it was easy to perceive, was prompted by the wish to gain a semiofficial status for the concessions.



It was akin to various other situations in which American oil companies had sold or traded substantial shares in their concessions to foreign nationals to secure protection. The proposal seemed to have several advantages. It would be a means whereby the stamp of vital American interest could be placed upon the oil of Saudi Arabia. The arrangement of such an option would display the fact that the American government regarded that source of supply as part of its military reserve. This notice should discourage jealous or unfriendly intrigues. It should make it more probable that the property would be immune from local disorder, and that the Saudi Arabian government would protect its operations. And if by unhappy chance an unfriendly government came into power, it would be less likely to indulge in impulsive mistreatment of the company. At the same time the stamp would not be indelible. The American government would not be obligated to protect the company against its own mistakes, or support it if it was wrong. It could, if it so chose, ignore any or all of its troubles without serious embarrassment.

The acceptance of this option could not be reasonably opposed by other oil interests—American or foreign. It might, if used, mean a loss of future sales to other possible suppliers. But it would in no way interfere with their regular business, or cause the government to become an active element in the oil business. There was no reason why the American government should not enter into similar agreements with other oil companies, both American and foreign, possessing reserves outside of the United States. In this way any charge of favoritism as between oil interests or sources of supply could be met.

Extensively used, it appeared to offer a method whereby large supplies of foreign oil could be set aside for our use in time of future shortage or emergency.

And lastly, it would place the Navy and Air Force in an excellent position to procure future supplies cheaply. Winston Churchill had, as head of the Admiralty, professed this to be one of the main attractions which led the British government in 1913 to buy control of the Anglo-Iranian Company. The way was open for the American government to secure the same advantage by a less controversial method.

But this option-contract arrangement was not thought adequate by the representatives of other government departments. Their contrary arguments were several and firmly sustained. It was their view that such an arrangement would in reality impose upon the American government an inflexible obligation to protect a private property. They argued that if the government accepted such an obligation it ought to be certain that the company conducted its affairs with due regard for the welfare of Saudi Arabia and put the interest of the United States above its own. In other words, they were opposed to underwriting, even in a loose way, a private balance sheet.

The Economic Adviser doubted whether the option contract would decisively affect the decision of the American government in regard to the protection of the properties in any truly troublesome situation. That would be settled by our need for the oil and the risks or objections that might present themselves. He had never discovered diplomacy at a loss for phrases to justify whatever course it was determined to pursue. Further, he believed the future need of the company for sympathetic official aid would be so great as to assure compliance with

any reasonable suggestion or criticism the American government might wish to make.

What appeared to the Economic Adviser an advantage of the option-contract method, seemed to the others only a weakness. They argued that while the arrangement placed an obligation upon the American government to defend American control of the Saudi Arabian and Bahrein oil fields, it was doubtful whether public opinion would support it in doing so—as long as it was privately owned. If assured American control of this oil was needed, our action should be conclusive; the government should be prepared to defend it against any and all dangers. This, they thought, it would not be able to do unless the rights to the oil were transformed into a public interest. Only then could it be certain of public support in the employment of its diplomatic and economic influence, or if necessary, of its armed force.

This train of judgment came to a bold conclusion. The American government should buy the companies that held the rights to develop the oil of Saudi Arabia and Bahrein!

The Economic Adviser maintained that such a step was unnecessary, disturbing, and would give a false impression of security in the event of war.

It seemed unnecessary because the American government could be just as determined in its defense of the properties whether or not they were publicly owned, and less apt to be shoved into impulsive or excessive measures.

It seemed disturbing in several possible ways. It might incline the American government to shape its decisions on Middle Eastern affairs on wrong grounds. It might involve us needlessly in disputes with local sovereigns or other oil interests. Or our intentions in acquiring so im-

portant an enterprise (refineries and pipe lines would almost certainly follow) could be easily misconstrued.

The very fact that it would be a government-owned enterprise, the Economic Adviser suggested, might incite attack upon it. To which view the answer was made that as long as the enterprise was private it would be thought weak and an easy prey; while as a recognized enterprise of the American government it would be immune. In retrospect the Economic Adviser is compelled to admit that in the atmosphere that bathes the Middle East at present, weakness, or suspicion of being weak, is more likely to invite attack than plainly displayed strength.

It seemed to give a false promise of security because the availability of Middle Eastern oil in war time was more likely to be settled by diplomatic and military circumstance, than by ownership. American ownership might give us the chance to deny this oil to others—by destruction. But it would only be available to our forces if they held physical control of the oil fields and refineries. Who could predict whether we would or not? The British ownership of vast supplies in the Middle East was then being of little use in the defense of the British Isles or the fueling of the British Navy. It contributed to the salvation of the Middle East only because the British army and air force had managed to turn back the Germans and Italians at El Alamein.

The longer the mind dwelt upon this aspect of the question, the farther stretched the perplexing and unanswered queries. Would even government ownership assure the availability of Middle Eastern oil in any serious future crisis? Would it not leave the problem of de-

fense the same? Was it in the thought of some advocates of governmental purchase that if the American government acquired these oil rights in Saudi Arabia and Bahrain, other diplomatic and military measures to establish an impregnable military position for the oil fields would follow? Britain had always had bases located near the Iranian field, and had shown herself determined to retain them.

The Economic Adviser knew that there were some officials who were eager, and properly so, to extend our trade connections throughout the whole of the Middle East. To do this they thought, and again there was a good basis for their opinion, the government must exert itself as a counterweight against British and Russian influence.

He also had intimations of a belief in a few circles within the government that it had become prudent to seek to acquire, or at least to assure the use of, naval and air bases in the region. They seemed drawn to this conclusion by the belief that the United States had so vital an interest in the future of the region that it would find itself compelled to enter the struggle for influence; and that it should, therefore, put itself in a position to make its views effective—if a crisis should arise. But these opinions were expressed only vaguely and with reserve, and had no established standing. Still, at midnight when the mind turns round upon itself, he wondered whether the idea of buying the properties rested upon the view that this oil would be essential to American defense, or whether it was but an item in an impulse towards the broad extension of our interests and activities, civil and military, in the region.

Where did defense end and ambition begin? Where

was the line between inert neglect, legitimate and friendly expansion of the national interest, and provocative intrusion?

The advocates of bold action supported their opinion by still another point. Only if the government were in actual possession would it be possible, they thought, to do the many other things required to bring about a large increase in production in these fields. All agreed that new markets must be found, transport improved, and new refineries built. These meant great new capital investment; there seemed little likelihood then that the present owners of the concessions would risk the money unless they felt more certain of their commercial future and political safety. And it was argued that the government should not provide the funds without acquiring control of the properties. The rejection by Congress just at this time of an agreement between the Navy Department and the Standard Oil Company of California for the exploitation of certain parts of our domestic naval reserves was taken as a warning signal. Almost certainly if the government financed the Arabian-American Company the government would bear the brunt of the risk, and the company secure most of the gain; while the great expansion of the Anglo-Iranian activity, under official British control, stood in stimulating contrast.

Finally, it was suggested that only government participation could undo certain hindrances to the expansion of the American-owned companies. Before the Arabian-American Company, for example, could build a pipe line to the Mediterranean and locate a refinery there, the consent of the British, the French, or Egyptian governments would have to be obtained. This might not be granted because of the feared opposition of the other oil interests

in the Middle East. As for the very promising field in the nearby sheikdom of Kuwait in which the Gulf Exploration Company held a one-half interest, there too, an obstacle to expansion existed. The Gulf Oil Company was pledged by agreement with its partner (the Anglo-Iranian Company) not to sell the oil of Kuwait in markets already enjoyed by the partner. Its own attempts to have this restraint removed had been evaded. The influence of the American government would be helpful in this situation also.

It would be confusing to follow further the flow of discussion, and misleading to make it seem complete or systematized. The representatives of the Petroleum Coordinator and the Navy stood firm on what appeared to them simple indisputable propositions: the oil was there; the United States might need it; the best way to make sure that it could be had if and when wanted was for the government to buy and defend it; and such a course could properly offend no one. The Economic Adviser chivied at this train of premises and conclusions ineffectively, and without much satisfaction in his quizzical performance. Who has not longed to visit in the tents of the Arabs and have occupation in the Holy Land?

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245  
12

## V

### THE PRESIDENT DECIDES



THE discussion of these questions within the Interdepartmental Committee on Petroleum did not exhaust their full measure, but they revealed how great was their depth. The argument within the Committee was now interrupted by a troubling crisis. The Economic Adviser had known that two participants—one from the State Department, the other from the office of the Petroleum Administrator for War—had been drawn from the executive ranks of the Standard Oil of California. He had a lurking memory that they may have retained some kind of loose connection with this company; he thought it was an arrangement to safeguard pension rights or something of that sort. Now he was faced with the assertion that they both were continuing to receive large and regular salaries. Inquiry proved this to be correct. Obviously, the Committee was a vulnerable group to formulate government policy in regard to the protection of American oil enterprise in Saudi Arabia and Bahrein. The Economic Adviser, after advising his superiors, disbanded it.

A new group was formed to take up the task—with instructions to prepare a report for the Cabinet and the President. The Under Secretary of the Interior stepped in to represent the Petroleum Administrator; he turned out to be a more determined advocate of government



purchase than the official he replaced. The Under Secretary of War was prevailed upon to accept the chairmanship of the new group. His training as a judge and fearless directness would, it was hoped, guide the discussions to a correct and unanimous conclusion.

The group met for long afternoons of talk in the office of the Under Secretary of War while soldiers impatiently suffered the interference.

But the differences defied the arts of persuasion and of draftsmanship. The representatives of the Navy and Petroleum Administrator seemed to become more insistent as the talk went on, not less. The able former lawyer who spoke for the supply services of the Army held their view but for a different reason; he did not think Congress would tolerate any other arrangement. But the Economic Adviser remained unconvinced. He was hardly, however, in a position to command agreement. For while the Secretary of State (to whom the course of discussion was reported with animated detail) seemed to believe the Economic Adviser wise and his differing associates foolish, he at no time showed an active wish to step between them. It was decided that the report to be submitted should, after emphasizing the need of *some* action to safeguard American control over Middle Eastern oil, present the two alternatives on which argument had centered.

The report was signed by the Cabinet officers in whose name the fray had been conducted, and transmitted to the White House. On a hot July afternoon, when the roses in the circular garden outside the windows of the Executive offices stood straight and still in the breathless air, the President gave his authority to the more intrepid line of action. The proposal to try to buy a stock of

the Arabian-American Oil Company was selected as the least ambiguous and most effective way to increase the security of our future oil supply. The discussion was jovial, brief, and far from thorough. A boyish note of enjoyment was in the President's talk and nod, as usual when it had to do with the lands of the Middle East. The buoyant certainty of the Secretary of the Navy and the Petroleum Administrator for War that no shorter step would do in this uncertain world and that this longer step could easily be carried off prevailed. The Secretary of State assented with an air of faint but cheerful readiness. His burdened spirit, groping among the formulas that might induce men to live in peace, could not bring itself to grapple with the differing views of assertive colleagues concerned with oil. The tangle of purposes made this subject a rough traverse for everyone. No one was to emerge from it unscratched.

The Petroleum Administrator for War and the Economic Adviser were designated to conduct negotiations for the purchase of the stock of the Arabian-American Oil Company and the Bahrein Petroleum Company, in accordance with the terms of the report submitted.<sup>10</sup> This stock was held in equal shares by the Standard Oil Company of California and the Texas Company. Invitations were immediately sent to the executives of these two companies to come to Washington.

<sup>10</sup> The prospective field of operation was extended early in the negotiations by the decision of the government to construct, or have constructed, another large refinery on the Persian Gulf—and preferably in Saudi Arabia—to fuel the war in the Pacific.

## VI

# THE GOVERNMENT GETS READY TO BUY THE OIL OF SAUDI ARABIA



THE purchase was to be made in the name of the Petroleum Reserves Corporation. This was the name given to the new organization created to manage the activities of the American government in foreign oil matters.

A need for a new organization to carry out this assignment had sprung out of the discussions just recounted. It was intended that all the main and usual operations in foreign oil fields should continue to be conducted by, and as, private business. But it seemed prudent that the government should be in a position to take measures for national safety that private business, unaided, might be unable or unwilling to take.

The possible need of its assistance seemed greater because of our tariff policy. It is probable that domestic oil will continue to receive preference in the American market and that imports will be restricted to a small and convenient supplement. This causes the foreign oil undertakings of American companies to be commercial orphans in a sense.

Of all situations that in the Middle East was most in mind. Any and all of the measures proposed to improve the position of the American companies in the Middle East called for government aid or action. An option on

underground reserves would be an official agreement. The purchase of the stock of the Arabian-American Oil Company would, of course, be a direct government act. The construction of a new pipe line and refineries for the oil products of the Persian Gulf would, it seemed probable, require government financing. A new organization seemed necessary to conduct such activities effectively.

Further, the duty of safeguarding the American oil position in foreign lands was diffused between several branches of government—which met on terms of mutual watchfulness. The job seemed to call for a specialized organization with more power to act than any existing one. It could maintain more intent watch over the foreign petroleum situation, keep informed of the performance of the American oil companies abroad, and, if need be, harmonize and try to direct them by suggestion. It was viewed as supplementary to, and perhaps an instrument of, the diplomatic support of private American oil enterprise in foreign lands.

Since it was impossible to foresee the exact range of its operations, the powers conveyed by its charter were broadly drawn. It was authorized

“to buy or otherwise acquire reserves of crude petroleum from sources outside the United States, including the purchase or acquisition of stock in corporations owning such reserves . . . and to construct and operate outside the United States such refineries, pipelines, storage tanks, and other facilities as are necessary in connection with carrying out the objects and purposes of the corporation. . . .”<sup>11</sup>

All departments of government which had an interest in foreign oil matters were given a place in the new

<sup>11</sup> Federal Register, July 2, 1943.

agency. This meant the State, War, and Navy Department, Petroleum Administration for War, and the Foreign Economic Administration. The last named possessed, under Executive Order, the right to direct the use of funds to buy raw materials abroad. It was not easy to fit these departments together into a new pattern of authority; and it was not achieved without a bruising of knuckles and some smothered reproaches. The most troublesome of the problems was whether or not to include the Federal Loan Administrator. He had long been master of all government establishments that dealt with matters such as these, and he wished to have the newcomer placed in his family. But the Petroleum Administrator for War doubted his grasp of the national need and his willingness to risk money on some of the projects that were in mind. The other participants could not dispute this doubt. The Petroleum Reserves Corporation might be called upon to take swift, novel, and venturesome action; it seemed best not to have to struggle with too conservative, too immobile weight.

Thus, the Federal Loan Administrator was shunted out of the program. The plans of organization that his legal staff had hurriedly prepared, preserving his control, were diverted to the trash basket. Others prepared by the staff of the Petroleum Administrator for War under forced draft appeared in the Federal Register and told their own story. Now, for almost the first time, the commanding figure from Texas who ran the RFC could not draw the right response out of the telephone receiver no matter how positively he talked into it. No aid—not even a direct response—was to be had from the White House. The Petroleum Administrator for War assumed the presidency of the new organization with no more

comment than a much decorated, grizzled veteran receiving another medal or award; with only a rough, gruff clearing of the throat, in fact. He was assuming a new command, not retiring to a routine job. In the winter of 1945-6 that command was to come to an unannounced end. The veteran was then, in turn, to learn that he was no longer in control of the Petroleum Reserves Corporation from the pages of the Federal Register or some such anonymous source.

But for this cycle of events, he was in command. And anxiety existed, and not for the first time, in certain parts of the State Department as to what that assertive spirit might do. Certain of the right, he was sometimes given to prefer a fight to a study of the issues in dispute; and in a fight he could twist and turn without benefit of the rule book. He had shown little use for some of the more subtle, patient, or evasive maneuvers of the State Department. He had slapped and snorted at any sign of expedient accommodation to the dictators. He had fought a rough engagement with the State Department over the sale of helium gas to Germany, and had won. He was known to feel that the Department stood in too great awe of the British imperial aura.

The Economic Adviser had admired this assertive figure and, often at unhappy cost, had supported most of his judgments—if not his impulsive and sometimes unfair methods of enforcing them. But the favored technique of negotiation of the self-styled “curmudgeon” seemed that of the blow followed by the kiss; this was not an ideal method for the handling of foreign affairs. And of special importance in regard to the first main assignment before the new organization, he seemed little concerned with the

tissue of conflicting interests that centered in the Middle East.

It seemed best, taking all in all, that those presumably responsible for the conduct of our foreign policy have suitable and clearly expressed right of control over the Petroleum Reserves Corporation. With this purpose in mind, two provisions were written into the by-laws of the new corporation:

(a) "The Corporation shall not embark on any major projects or undertakings without receiving the prior approval of the Secretary of State.

(b) "All major negotiations with foreign governments should be conducted through the appropriate missions of the State Department, or else under its supervision."

The Petroleum Administrator showed his amiability by agreeing to these provisions. The Secretary of State recognized their logic but wondered whether the Department might not be putting itself into a rough seat. With so many companions in the driver's box, it might not be pleasant, his manner hinted, to appear to hold the reins or operate the brake. Thus, he seemed to acquiesce in these provisions more out of a wish to satisfy the Economic Adviser's longing to wear a coachman's uniform than out of any anticipation that it would be a pleasant ride.

The directors of the Petroleum Reserves Corporation perceived that any important or novel undertaking and expenditure, such as the purchase of the stock of the Arabian-American Oil Company, would have to be submitted to Congress. This knowledge influenced every idea that was inspected in their meetings and every

clause in the draft that was prepared. It was foreseen that any deal would have to survive the scrutiny of some members of Congress who would oppose any terms that gave the private owners a profit, and other members whose constituents were engaged in domestic oil operations. A witness might have received the impression that the officials concerned were afraid lest they emerge thoroughly smeared with oil. They negotiated in an asbestos wrapper. The better to deal with the ruses that were anticipated, the Petroleum Administrator for War drew in a former associate who had learned the oil business in Texas. He had the gift of being able to advance preposterous proposals with a quiet and innocent air; everyone liked him and no one was fooled.

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## VII

### BUT THE COMPANIES REFUSE TO SELL



THE negotiations for the purchase of the stock began in August and went on fitfully through the whole of the summer. The participants came together in the air-cooled gray offices of the Interior Building in irregular sessions, then drew apart, sometimes for days or weeks. The meetings and separations alike were, in the mind of the Economic Adviser, tinged with ambiguity.

All the previous talk between officials had failed fully to trace the consequences of the stock-purchase plan. The government representatives, therefore, had to stop to review aims, to compose proposals, and to find answers to objections.

As for the companies, they had gone fishing for a cod and had caught a whale. They had first made their way to Washington in search of protection against enemies hard to name and desirous of help in developing their properties. Perhaps also with the inner thought that skillful persuasion might save them from the need to make further advances to local rulers. Then, one day they walked into the Interior Building and were met with a suggestion that they sell their property to the government and withdraw from their enterprise. The more they thought of it the larger became the pearl they held in their hands, the more exciting its possession, the higher the price it might someday fetch, and the more

ill luck it might bring to any other owners. Or in language that more literally reports their actual statements, the more billions of barrels of oil they reckoned they controlled, the greater the income it would some day bring, the greater the harm to their chances of getting concessions elsewhere—if they sold to the government those they held in the Middle East. Furthermore, they found none of the financial offers generous. The fear of loss, which had led them to Washington, was not reflected in the appraisals that they placed upon their property after negotiations began. The Economic Adviser received the impression that they were afraid of being trapped into a bargain. At every meeting, the lawyers sat next to the talkers like sentinels.

The part played by the Economic Adviser in the discussions with the oil company group grew fainter at each successive meeting. The Petroleum Administrator for War did not seem to need his partnership and barely acknowledged it. Still the Economic Adviser did his best to quiet certain anxieties that the companies expressed—particularly that the British government would strongly object to the transaction; for he did not believe that government to be in a position to do so. He found himself suggesting compromises in regard to the money value of the properties; but that only made him suspect to everyone. It was a weak effort to match the hopes of the companies with the pessimistic version of existing realities favored by the government participants.

The talks were impelled on by the taciturn will of the Petroleum Administrator for War and the eagerness of the Secretary of the Navy. They knew what they wanted; and they were confident it could be had. The latter, in fact, would have bet and lost an excellent Panama hat had

the Economic Adviser ever worn one. The wish to complete the deal became the stronger when it became clear that a great new refinery would be needed on the Persian Gulf to supply our forces in the Pacific. It seemed a pity to make this large government investment without acquiring an interest in the fields from which the crude oil would be drawn.

The first proposal made to the Standard Oil Company of California and the Texas Company was that they should sell all of the stock of their subsidiaries that possessed the concessions in Saudi Arabia and Bahrein. When this was refused, it was replaced by an offer to buy a majority of the stock. This was to be accompanied by an arrangement that would have entrusted the business management of the properties to the existing companies and assured them of enough oil for ordinary trade. When the second offer was refused a black and blue mark showed upon the spirit of the government negotiators.

They canvassed ways of trying to extend government control over another important source of oil in the Middle East. It was remembered that the Gulf Oil Company owned a half interest in a most promising, though smaller, oil field in the nearby Arab sheikdom of Kuwait. Talk with the other oil companies was suspended while proposals of partnership were broached to that company. It was thought that if such a partnership were arranged, Kuwait production could be greatly expanded; for the American government might secure a revision of the restrictive conditions of partnership under which the Gulf Company operated and supply funds for expansion. But this initiative did not progress.

Therefore, the negotiations swung back to their original orbit. In late September a new basis was devised

under which the government would acquire, in the first instance, only a third part of the ownership. This participation was then to be gradually increased as the government put up capital for new refinery construction and other purposes. Other features of the suggested plan were that the private owners and the government should have equal representation on the Board of Directors, that the companies would retain unhindered control over the commercial operations of the company, but that the government would have deciding authority in certain questions of policy.

This new proposal seemed for a brief time to be acceptable to everyone. The government representatives thought, early in October, that an agreement had been reached, though there were signs that the companies still retained doubts as to just what kind of partner they were about to embrace. But between the last talk and the formal completion of the deal a rebellion took place in company circles.

The government was notified that the companies rejected the proposal and wished to withdraw from any further discussions. This word was a disappointing shock. A mission had been organized by the Petroleum Reserves Corporation to proceed to the Middle East in order to look over the properties and to obtain Ibn Saud's consent to the transaction. It was poised to leave as soon as the contract was drawn. The eminent group of geologists and officials flew off for Arabia, but only as observers, not as emissaries of a new venture.

Why the companies finally reached their negative judgment, the Economic Adviser was not certain. For by that time he was only on the fringe of the bargaining. Probably the companies feared that whatever the terms

of the agreement, the government would dominate the enterprise. Then, too, the financial arrangements gave them no obvious cash profit; the government was to obtain its third share in the Arabian-American Company for the same amount as that which each of the two companies had invested in its third share; they doubted whether this would satisfy the stockholders. Further, the companies seemed to grow afraid that they would become suspect in the eyes of other foreign governments and at war with all other American oil companies. And, lastly, the companies would have been stupid not to have divined that they could count upon official interest in their welfare even though the government did not share in the ownership of the oil fields.

Government officials forced themselves to accept the failure calmly. Waves of silence were permitted to wash the memory clean. It remained their duty to see that the opportunities for oil development owned by Americans in the Middle East were made secure and that production in this area went forward. Thought turned to other means of achieving these ends.

## VIII

### AN INTERNATIONAL AGREEMENT WAS PROPOSED BUT DEFERRED



THE way was open for a new approach. The Secretary of State had acquiesced in the stock-purchase plan. But there was a repressed judgment throughout much of the Department that it would have been wiser to seek a solution for our problem by a more co-operative method. This judgment the Economic Adviser shared. Risks of misunderstanding and of combative countermeasures existed.

If the American government vigorously pushed production in fields of which it became the owner, set higher standards of work and return, new demands would arise throughout the Arab world. This was no reason for remaining inactive; perhaps, the contrary. But it was well to recognize that Great Britain and the USSR could not fail to wonder whether, if American energy in oil development did not wilt under the desert heat, their influence and position, particularly in Iran, might be challenged. They were almost certain, also, to ask themselves, if not us, whether the American government intended to follow this step by other agreements with Saudi Arabia on economic or strategic matters.

Then, too, there were the other great oil companies of diverse and mingled nationalities who did business in other Middle Eastern fields. Certainly if the American

government became the owner of large producing properties their commercial ties and prospects would be affected. The pattern of competitive relationships in the Middle East was as finely woven as that of a Persian rug. If we walked across it with heavy boots, unintended damage might be done and quarrels might follow.

The United States should if possible make its way in the Middle East as a welcome and reconciling partner, and not stumble into it as an intruder. After the end of the last war, disputes over the rights to develop the oil resources of the Middle East had badly smeared the peace tables. Diplomatic suavity and trust had become submerged in a clamor of national demands. It was important to avoid a repetition of this disruptive grab.

These reflections led the Economic Adviser and his colleagues on the Petroleum Committee which had been set up within the State Department to the conclusion that an international basis should be sought for an orderly and combined program. Since British companies controlled so large a part of the oil resources of that area and British political influence was so widely established therein, it seemed sensible first to seek agreement with Great Britain. Further, it seemed opportune that these two countries should define their responsibility for dealing fairly with other countries. The times called for the affirmation of some rules to be observed by those who controlled a resource of such universal importance as oil—if that control was not to be regarded as an unjust monopoly. To countries that controlled no source of supply, assurance should be given that they could secure the oil produced on fair and equal terms. To countries that permitted others to develop oil resources within their ter-

ritories, promises should be made that they would secure an adequate share of the benefit.

The certain interests of the USSR in any agreement that affected the affairs of the region was not forgotten. It was clearly understood that no step should be taken in concert with Britain that might injure the USSR or place it at a disadvantage. But it did not seem feasible immediately to include that country in the preparatory discussions. The American and British governments had virtually pooled their oil supplies for the conduct of the war; the USSR was managing independently and not even exchanging information. Discussions with Moscow, even on matters essential for the conduct of the war, usually took a difficult course. In this matter the first formulations were certain to be groping even between participants who approached it with the same economic conceptions. It was impossible to guess what types of proposals the USSR might make; they might bring the whole pattern of ownership in the region into question. It seemed foolish to take this risk before our own policies were defined. Lastly there was the fact that the USSR possessed no oil rights in the region and had shown no recent evident wish to acquire any.

For all these reasons it seemed most practical to find out first whether it was possible to work out in concert with Britain a policy that would be acceptable to the rest of the world. It was not intended to seek any new advantages for the United States; only to safeguard those it possessed and promise that they would be used for common good. In retrospect it still seems to the Economic Adviser that the decision to restrict the first conversations to Britain was the only feasible one; and that any other procedure would have resulted in great confusion.



Such were the thoughts in the minds of the draftsmen of the State Department who set about the formulation of a possible agreement with the British government in the late spring of 1943. They were warmed by the idea that they had a creative opportunity to reconcile the interest of nations by making the oil of the Middle East, in essence, a common asset. The task was novel. It was felt to be important not only in itself, but because the principles that were being formulated might become the model for other raw materials.

Enthusiasm was tempered by a knowledge of the tenderness of such ideals and the toughness of self-interest. That, it had been observed, was why the ideal so often wears out first. Thus fatiguing goals were set aside, and ones thought to be comparatively easy were selected. And even these, it was perceived, must be such as could be reached through voluntary consultation between governments and voluntary co-operation of the oil companies. Neither the United States nor other countries were willing to subject the oil operations of their nationals to international control. The power of the American government itself to give orders to any private oil company in regard to its operations was slight; it consisted of little more than the power to refuse help.

A draft slowly simmered along in the State Department during the summer. This gradually reduced itself to a short and simple text. The Economic Adviser had kept the Petroleum Administrator for War informed of the ideas of its draftsmen. But during the spring and summer months, official decision, as has been recounted, turned towards more direct measures. Doubt existed as to whether the British authorities would deal with us on equal terms until it was clear that the American companies were in an

effective position to compete. Thus, the Economic Adviser did not attempt to press the emerging draft upon the inattention of others until early in September. By then he was hopeful that it might provide an acceptable basis for international cooperation in the Middle East.

The failure in October of the stock-purchase negotiations softened the willful spirit in which the subject of Middle Eastern oil had up to then been approached. The idea of an international accord received a cordial welcome in many places where there had been only indifference. The Economic Adviser, on behalf of the Department, circulated a text and became the advocate of immediate commencement of discussions with the British. Talk with a representative of the Anglo-Iranian Company had left an impression that the British oil companies recognized the desirability of an agreement of this kind. Seated along the desk of the president of the Petroleum Reserves Corporation, the Economic Adviser was not spoiled by outspoken praise for the initiative; but he was not discouraged by objection. The gruff reticence he encountered may have been due to his suggestion that these discussions be managed, in the beginning, by the State Department. There may have been belief that the State Department did not understand the question, or would fail to press American requirements with sufficient vigor. Or there may have been a belief that anything having to do with oil should be dealt with by that branch of the government that was responsible for the American oil supply—during the war and the peace to follow. At all events, a trip to London that the Economic Adviser was to have taken (October 1943) to prepare the way for an agreement became entangled in unexplained last-moment objections.

Shortly thereafter, the Economic Adviser ended his connection with the matter. He does not know where the particular text that he had nursed came to rest. He was not told why discussions with the British were delayed until a venture of another character had been tried and failed.

## IX

### THE GOVERNMENT PROPOSES TO PUMP THE OIL WEST



ON February 6, 1944, the Petroleum Administrator for War announced the conclusion of an agreement in principle between the Petroleum Reserves Corporation, and the presidents of the Standard Oil Company of California and Texas (owners of the Arabian-American Oil Company).<sup>12</sup> The government undertook to

“construct and to own and maintain a main trunk pipeline system, including requisite facilities for the transportation of crude petroleum from a point near the presently discovered oil fields of Saudi Arabia and Kuwait to a port at the Eastern end of the Mediterranean Sea.”

The birth of this project was not as swift or immaculate as it seemed to a surprised public. The companies had often pointed out in public and private discussions that such a pipe line would enable them to enter new markets with new production. Experts, both engineering and economic, were in agreement that it would be, someday, a sound undertaking. But up to that time business judgment had not approved the risk. A more assured traffic prospect was awaited. When company officials had discussed the plan with the State Department, they had been

<sup>12</sup> The “Outline of Principles of Proposed Agreement,” appears to have been signed earlier, on January 24, 1944.

promised help in securing the required diplomatic clearances. Ever since the end of the previous war, the State Department had insisted that our contribution to a common victory entitled American enterprise to equal economic opportunity in the mandated and ex-mandated territories of the Middle East. The opportunity to build this pipe line was deemed to fall within that claim.<sup>13</sup>

The announcement issued by the Petroleum Administrator for War declared that the agreement had been entered into with the approval of the President and the State Department, and upon the recommendation of the War Department, the Navy Department, the Joint Chiefs of Staff, and the Army-Navy Petroleum Board

<sup>13</sup> This claim was solidly based, as regards Palestine, on the terms of the Mandate (especially Article 18, which obligated the Mandatory to see that there was no discrimination against any member of the League of Nations "in matters concerning taxation, commerce, or navigation, the exercise of industries or professions. . .") and the Palestine Mandate Convention between Great Britain and the United States of December 3, 1924, which specified that the United States would enjoy all the rights and benefits granted other countries under the terms of the Mandate.

As regards Bahrein, the local ruler was pledged by letter of May 4, 1914, to the British authorities not to "entertain overtures from any quarters regarding (oil resources) without consulting the Political Agent in Bahrein, and without approval of the High Government." However, since the British authorities had agreed to the original concessions given American interests to develop oil in that territory, it could certainly not object to any pipe line connection.

As regards Kuwait, the local ruler had promised in October 1913 not to make oil grants to anybody except a person appointed from the British government. But again the British government had agreed to the acquisition by American interest to the half-interest held in that territory, and was not likely to obstruct the construction of a pipe line connection; it might bargain, however to protect the commercial interests of the Anglo-Iranian Company.

"in appreciation of the critical importance of reserves of petroleum in war and in peace and of the necessity of assuring to the military forces of the Nation and to the people of the United States adequate petroleum supplies. . . ."

Never did a pipe line have so distinguished a diplomatic and military guard of honor. It must have been foreseen that it would have enemies, and therefore it was deemed useful to show that it would also have friends.

Under the terms of the agreement the Petroleum Reserves Corporation was to determine "the most feasible plan for operation of the facilities, and will retain supervision thereof." The newspaper reports implied that the Petroleum Reserves Corporation would ask the companies to arrange for the construction of the line and to manage its operation under official direction. The companies were to be obligated to tender for transport minimum quantities of oil to the pipe line annually; this was a virtual guaranty of enough business to repay the government investment with interest. Furthermore, the companies agreed to maintain underground a crude petroleum reserve "available for production for the account of, and purchase by, the military forces of the United States" of at least one billion barrels. The government was to have the right to call for the delivery of this oil at any time in accordance with an agreement upon rate and schedule of delivery, and at a favorable price. In the event of war or other national emergency the American government was to have the first right and option to buy the total production of the companies.

The precise route of the pipe line was not set out in this preliminary agreement. Its location, size, capacity, and terminal points were to be selected by the government.

It was realized that this was not solely a matter of cost or geography. Decision as to the route to be followed would have to take account of possible political difficulties and diplomatic hindrances. It was explicitly recognized in the text of the agreement that the consent of the rulers of Saudi Arabia and Kuwait was necessary. Alternative sketches under study led the route across Palestine, in which case the consent of the British authorities would be necessary, and into Egypt or Lebanon, where other governments would have to be satisfied. Furthermore, it was seen that the selection of the terminal point on the Mediterranean must take into account harbor facilities, probable markets, and suitability for a great new refinery.

It is probable that the reckoning of the sponsoring officials traveled beyond the immediate end of making the oil of Saudi Arabia and Kuwait more accessible and cheaper. It may be assumed that it was perceived that the establishment of this pipe line would make the American concessions in these countries wards of the American government. For once the pipe line was built, serious disturbance in the intake of oil was certain to attract the attention of the American government. Further, it could easily have been foreseen that the project would, in time, modify the established commercial pattern of oil production and marketing throughout the Middle East. The Arabian-American Company and the Kuwait Oil Company would become more important factors in the total trade. A new effort would almost certainly be made to amend the contractual restraints upon the operations of the American partner in Kuwait oil. Thus it must have been evident that construction of the pipe line would stimulate production in all of the important oil fields of the Middle East. This, it had been agreed in earlier dis-

cussions, was desirable since it would lessen the future rate of exhaustion of the reserves of this hemisphere.

The manner of the announcement gave the impression of a foray into hostile, unexplored territory. It was issued without advance notice to the oil interests or foreign governments that would be concerned. The Economic Adviser was not informed of the reason for what appeared to him the wrong way of proceeding. But it is possible to guess at certain notions that may have prompted it. The local rulers could be expected to welcome and give the necessary accommodation to an enterprise that would add to their national wealth and revenues. The British or French authorities could not fairly refuse to grant the right to run the pipe line through Palestine or Lebanon. The project would bring valued economic activity to the locality in which the refinery was located. To chain eagerness for a purpose so well justified must have seemed a pity, and possibly a mistake. The process of counsel and consent in government so often wears down and exhausts intention. What chance was there to secure disinterested counsel? What hope that the vested interests that might be disturbed would not object? What possibility that diplomacy would quickly approve? Foreign offices rarely pass up an opportunity to place a price tag upon the satisfaction of any request of any alien enterprise.

Such could well have been the reasons for announcing completion of the agreement before foreign consent or co-operation was sought. Proof of the will and power to act was evidently thought to be the first step towards obtaining the conditions necessary to complete the action. Disraeli had not hesitated to buy the Suez Canal shares and tell the world later. Churchill had the stock of the



Anglo-Iranian Company on its way towards the treasury vaults when he confronted Parliament. The rulers of the desert had been imperious men; their advisers were poets who ignited the soul and praised boldness in triumphant song.

## X

### BUT OBJECTIONS GUSH OUT OF THE GROUND



**T**HE sponsors of the pipe-line project first appeared to enjoy the sensation it created. But their hour of satisfaction was brief. Objections appeared from all directions. Some were supported by reason; others merely expressed suspicion; and the strongest were coated with oil.

There was silence throughout the Middle East except for fragmentary newspaper comment. Some native leaders were heard to express the thought that the standards of pay and living which the American government would establish in Saudi Arabia might improve the lot of the workers in other Arab lands. If Ibn Saud's thoughts quickened at the announcement, he gave no sign. It may be surmised that he would have gladly aided the project.

The British Government preserved its calm, though subdued signs of excitement could be perceived by habitual readers of the British press. The Secretary of State for Foreign Affairs, replying to an inquiry in the House of Commons as to whether the United States would acquire sovereignty or extra-territorial rights in the territory needed for the pipe line, contented himself with observing that he believed the project to be in a very preliminary stage, and that "before it is developed, it will no doubt be for the United States Government to approach the other governments concerned." He agreed with the

view expressed by another questioner that the British government should be consulted, adding that he awaited the report of the British Ambassador in Washington before making any detailed statement.

The USSR appeared to be too absorbed in its terrible struggle with Germany to take heed of this project, which would be located far south of its borders. At the time the United States was providing large quantities of oil to Russia under Lend-Lease, thereby lessening its own reserves.

But if the foreign world refused to be upset or astounded, American public opinion and the private interests that thought themselves hurt responded violently. The press chattered in confused surprise. One part sprang to defense of the agreement as a foresighted and bold step to protect America's future on land and sea; another part harshly questioned both its necessity and sense. Senators expressed anger at the fact that even as they were patiently waiting for the officers of the Petroleum Reserves Corporation to give any good reason for its existence, this new and important initiative was announced. Senator Taft of Ohio interjected into the debate a line from Horace found in the London *Times*, "Iccius, are you now looking enviously at Arabia's rich territory?" Oil companies engaged in production within the United States hastened to organize, the better to express their outraged opposition. Those who had production in foreign fields that might suffer from the competition of Saudi Arabian oil used the telephone industriously.

To the former Economic Adviser, the extent and fury of the attacks upon the agreement proved that the government had erred in the manner of its conception and presentation—granting that much is to be said in its sup-

port. Certainly it would have been wiser to discuss the project with other American oil groups that were established in the Middle East, and to permit some advance word to reach the British authorities. The objections should have been invited before final action, not after. Had they been, the plan might have survived in the battle of opinion; though no doubt much modified. But who is to know?

Apart from the disturbing manner of its announcement, what were the pertinent questions by which the project could be judged? It was not easy to comb the primary ones out of the tangle, but three primary ones suggested themselves.

First, was the action necessary to safeguard American security?

Second, was it necessary enough to justify the permanent entry of the American government into the maze of interest, economic and political, that existed in or centered on the Middle East?

Third, if the project was carried through, would it become more probable that the American government would strive to establish military bases in the region in order to protect the pipe line and its sources of supply? Every attempt the Economic Adviser made to phrase the third question left him doubtful whether it hit the main point. Perhaps the chain of justification ran in reverse. Perhaps it would be more pertinent to ask: If the United States was about to find itself compelled to take a part in all the issues arising in the Middle East, was the acquisition of bases becoming necessary to support our diplomacy; and if so, was the pipe-line project justified as the means of assuring oil needed to supply the bases?

He was unable to reach conclusive answers to these

questions, and cannot do so now. Attempts to analyze the full possible significance of the project led into a vast and uncharted sea of speculation. He could derive little help in his voyage from the murky discussion in the press or the guarded ejaculations of government officials. And, alas, he does not believe that any others who may repeat the analytical journey will receive much help from the narration of his scattered reflections.

The construction of the pipe line seemed to him desirable, if not of proven necessity, to the security of the United States. It would strengthen the position of the American oil enterprises in Saudi Arabia and Bahrein and safeguard their future. It would stimulate the development of production throughout the Middle East. It would contribute to the economic improvement, and perhaps political stability, of the Arab states in whose territories the oil deposits were located. These were all sound American aims.

But did the promise of achieving them justify direct action—in the form of a proposal that the American Government itself build and own the pipe line? It was doubtful. The objections were worrisome though hard to define. The government might find itself involved in contests for commercial opportunity between rival oil companies doing business in the Middle East, or possibly the world over. As owner of the pipe line it might find itself engaged in rivalry not only with oil companies, but also with foreign governments; and not only over markets and concessions, but also over boundaries and treaties.

Furthermore, it was probably only a matter of time when the company, alone or in combination with other interests, would build the pipe line. If need be, the government might loan funds on favorable terms—terms

which adjusted the burden to the revenues of the pipe line. This would be a less troublesome commitment, by far.

As for the bearing of the project on our future military and diplomatic position and activities, the only fumbling conclusions that emerged were bothersome. Even if the hour had been reached when it was appropriate, even essential, that the United States participate in the settlement of Middle Eastern affairs, would it not be better that the government be unembarrassed by any direct economic or financial interest? Might not other governments emulate us and seek to install themselves in the Arab countries?

And if the chief reason for going forward lay in its prospective military value, the pipe line was open to the same weakness as the stock-purchase proposal. Its control in the event of war would be decided by the armed forces opposed, not by the character of its ownership. It might, indeed, be made safe—if not accessible—if the United States permanently located strong military forces nearby. But neither the prospective American need for oil, nor any other evident security calculation seemed to justify so important a step. It would be difficult, if not impossible, to defend unless made so powerful as certainly to seem a menace to others. The need for protecting the oil fields did not seem to be a sufficient reason for courting such objections. Nor did the possible military use of such bases in some future war. There were possible future policy responsibilities. But if these were assumed by international accord, presumably the United Nations would agree upon joint use of certain bases, or perhaps even establish them.

The game of question and answer ended in a few private conclusions: that this project should be deferred;

an effort should be made to reach agreement with the British and other governments on a co-ordinated program of Middle Eastern oil development. If and when—preferably as an outgrowth of the agreement—a pipe line was undertaken, any necessary government participation should be less direct. The Economic Adviser expressed these conclusions in a brochure, gaining thereby the right to participate in the confused uproar that was to follow.

## XI

### THE PROJECT IS RUEFULLY WITHDRAWN



**P**ERPLEXITY over the project was widespread. To liberal opinion it was disturbing, even sinister, as a glistening corridor for imperialists. To other groups, tinged by isolationist feelings, it was a step to draw the United States into the historic struggle between the British Empire and the USSR in the Persian Gulf region. Anxiety was aroused among supporters of Zionism by the thought that the United States might barter support of their cause against oil.

But the fate of the project was not decided by such misgiving in regard to its political implications. It was rejected mainly because of the opposition of groups who believed it would have an adverse effect upon their business position or prospect. Virtually the whole of the American oil industry condemned the proposed measure as needless and unfair. It was, the industry argued, needless because all the oil that the United States might ever need could be, and would be, supplied by the private American oil industry—from American resources in the main, supplemented by foreign production. It was unfair, the industry asserted, because it would put the American government in competition with the American oil industry. The more extreme critics alleged that in time it would place the American government in control of the whole of the industry. Thus the Senator from Oklahoma,



who led the angry battalions of domestic producers, made a charge that the authors of the agreement visualized "the socialization of the oil business and other basic industries."

This industry opposition was organized by and around the producers who owned properties in the United States. But it included many American companies that were engaged in oil production in other foreign lands. The American enterprises that operated large fields in the Caribbean areas felt that their future prospects would be prejudiced. In a measure they were correct. The two great American oil companies that in partnership with Anglo-Dutch and French interests operated in other Middle Eastern countries—particularly Iraq—regarded the proposal as an unjust blow. The Iraq Petroleum Company, in which they were participants, had for some time past sought approval for an application for material wanted for a pipe line from their fields to the Mediterranean. Now the American government proposed to become their powerful rival.

Thus, the opponents rose from right and left. The Petroleum Administrator for War retreated in stunned indignation. The other government agencies whose support had been displayed in the original announcement said little. None stepped forward now to assert firmly that the security of the United States required this measure and required it at once. Except for the enigmatic observation of the Secretary of State that there was no misunderstanding between the American and British governments, the prudent silence of the government press rooms was not broken. In the silence, the opponents made themselves heard all the more effectively.

After a delay of six weeks, the Petroleum Adminis-

trator for War made a bluff attempt to defend the agreement in a public debate. He stressed the fact that it had the approval of all branches of the government. He repeated that the government must provide sufficient cheap oil for the people ". . . for war, if needs must, and for peace in any event."<sup>14</sup> He vigorously denied that this project would result in competition with or control of private oil industry. But there was something restrained about his manner of argument, as though he knew it was foolish to anger opponents for a cause that was doomed. And when, tired and with shattered collar bone, he repeated his appearance before a committee of the Senate, the usual gleam of combat—finding its way above the rims of lowered spectacles—was replaced by a rueful and conciliating air.

The prevailing judgment of the Senate became evident. It was thoroughly against the agreement in the form proposed; and a vigorous group of Senators seemed determined not only to prevent its consummation but to compel the dissolution of the Petroleum Reserves Corporation. Rather than subject the Administration's policy to direct rejection, friendly Senators used an exit from the situation provided by the critics—that a special committee of the Senate should be established to study and recommend a national oil policy.

The President, in June, promised that he would not proceed to give further effect to the pipe-line agreement without advance notice. The notice was never given. The daring impulse died in mid-air. The Committee, after extended but discreetly managed private hearings, showed no disposition to stir the project into life. The Petroleum Reserves Corporation did not long plead for any revival.

<sup>14</sup> *New York Times*, March 17, 1944.

The American oil industry gradually banished its indignation. But it remained alert for any signal that the government might resume the attempt to introduce itself into the circle of dealers in Middle Eastern oil. A blithe note crept into the articles that appeared on the future of American underground resources. Drilling was extended into many untested structures in North and South America, and conducted more thoroughly on the tested ones. Production jumped.

## XII

### SO WE TURN TO NEGOTIATION



STILL the question of the future of the American oil enterprises in the Middle East did not fade. On the contrary, the controversy over the pipe-line proposal focused public attention upon it. New reports confirmed earlier ones in estimation of the vastness of the resources of the region. The experts sent by the Petroleum Reserves Corporation into the area upon their return issued the opinion that: "The center of gravity of world oil production is shifting from the Gulf-Caribbean areas to the Middle East, to the Persian Gulf area, and is likely to continue to shift until it is firmly established in that area."

All branches of the government now became alive to the fact that any action taken in regard to Middle Eastern oil would command great political interest. It was clear also that, no matter what method was employed, the domestic industry would be against any program for stimulating production in that area. Expediency, if not conviction, made it unwise to confront at the same time this opposition and public fears that we were stumbling into foreign quarrels. Thus appreciation grew of the wisdom of seeking to attain our aims as part of a negotiated international program.

The drafts for an international agreement on petroleum that had been permitted to draw dust during the excitement over the pipe-line project were recalled and re-

touched. Officials who had been indifferent became animated. The State Department emerged from the shadows where caution had found refuge. The British government was invited to send experts to the United States to discuss the possible terms of a petroleum agreement. It was announced—the better to appease or outwit opponents of the idea—that the discussions would be merely on a “technical level.”

The British accepted the invitation. The mission sent included the heads of the Anglo-Iranian and Royal Dutch Shell Companies and civil servants. Its assured unity impressed the American negotiating group and provoked their envy. For the American delegation was overnumerous and ill-assorted, being drawn from many different branches of the government and the oil industry. The government officials and oil executives could not agree as to the way and the extent that the latter should share in the negotiations. There was a lack of ease between the Secretary of State and the Petroleum Administrator for War. There was ambiguity of aim; the new Petroleum Adviser in the State Department did not seem to know whether our purpose was to stabilize the petroleum trade or safeguard the future American reserves of oil. The clothes of the American officials grew more and more rumpled as the meetings went on; the white carnation in the lapel-hole of the senior British civil servant seemed always fresh and gleaming with dew.

But a spirit of good will and the expertitude of a few technicians in the compounding of formulas surmounted such provocations. The discussions progressed. In May 1944, the two groups of government representatives reached accord on almost all features of a possible agreement. The exchange of views had shown that the pur-

poses of the two governments and the permanent interest of the larger oil companies of the two countries were in a large measure harmonious. It revealed a disposition on the part of the two groups to work with, rather than conspire against, one another.

The few points of difference remaining after the first meeting were settled later. Presently the British government sent another mission, headed by the sensational newspaper publisher then holding office as Lord Privy Seal in Churchill's cabinet to deal with a Cabinet committee of the United States. The Secretary of State was chairman of this committee, and guided it with vague hints. The Petroleum Administrator for War, as Vice-Chairman in control, accepted them. On August 8, 1944, an agreement was signed and shortly thereafter published. It was to enter into effect upon reciprocal notice of the two governments of their readiness to have it do so.

The American officials that had worried over the American future in oil sank back with relief and pride. They felt that the country could be assured of the Middle East as a source of supply. They thought that they had placed the first marker on the way towards harmonious international co-operation in the distribution of raw materials.

## XIII

### THE AGREEMENT WITH GREAT BRITAIN: A TRIUMPH OF GOOD PURPOSE OVER OBSCURITY



READING quickly the agreement then signed, the reader is apt to feel as though he were taking a walk among the angles and spaces of an abstract painting. It was daring one way, timid in another, and obscure in general.

It was daring since it set down principles which were to govern the policies of the two governments in regard to all the foreign oil undertakings in which they or their nationals might engage *anywhere in the world*. Such matters had always been left to national initiative and the interplay of competition. Here was an attempt to establish, by agreement, the rules for the control of the whole realm of a vital raw material.

It was timid because it avoided any plain indication of how the Middle Eastern situation would be handled. It provided only a filmy framework of principle to guide future discussions between the two governments of the problems that had worried the American government and oil companies. The British were asked to yield nothing at once. The pipe-line project was not pressed.

It was impossible to be certain as to what had been agreed. The actual meaning, in application, of the phrases employed to express the "principles" which were en-

dorsed, was unclear. The text identified and qualified for recognition (at some future commission meeting) all points that might be pertinent in the administration of a joint policy of oil production and distribution. Then the resultant list of admissible considerations was enclosed in a hedge of guarded language so that neither signatory might find its interest in any point unprotected. To feel forgiving towards the language and form of that document, it is necessary to place oneself in the atmosphere of a tired conference room. When experts become fatigued, technical phrases become the currency of thought; and the issue is inflated as the night drags on. Victory in debate over the words in a clause becomes the conquest of a kingdom, and differences are compromised in language, not in fact. Disputes follow later. Life and meaning existed at the center of this accord, but only the learned could communicate with them, and in code.

Well to illustrate the obscurity that evokes these caustic words about this first draft of the oil accord would require a glossary far longer than the whole of the original text. No doubt the authors were not unaware that the spread of the words used, like the spread of a circus tent, would be large enough and loose enough to admit any animal—whether it be the size of an elephant or the size of a goose.

But, despite its faults, the agreement was a promising forward step. With good will it could be made to serve two most important ends: the adjustment of the interest of nations in oil; and the security of the United States in regard to future oil supply.

In condensation the main points of agreement can be briefly—if not indisputably—summarized.

Each of the two governments appears to have agreed:



First, that, subject to considerations of military security, they and their nationals engaged in oil production abroad should make adequate supplies available to all countries on a fair and nondiscriminatory basis.<sup>15</sup> There is some question as to how significant is the reservation regarding military security; but it is apt to be considerable.

Second, that the principle of equal opportunity should be observed in regard to the acquisition of rights to explore for oil or develop oil in fields still open.

Third, that each will respect all the existing valid concession contracts and acquired rights of other parties, and not interfere with them.

Fourth, that the activities of their nationals in oil development are not to be hampered by restrictions imposed by either government or its nationals inconsistent with the purposes of the agreement. This last clause is an obviously misty meadow in which the fireflies of debate can dance freely. It was probably designed to provide, along with the next point to be cited, a possible approach to an adjustment of certain existing restraints upon production in the Middle East.

Fifth, that they will establish an International Petroleum Commission, which, among other matters, would be expected, "to analyze such short-term problems of joint interest as may arise in connection with production, processing, transportation, and disposition of petroleum on a world-wide basis, wherever the nationals of either country have a significant interest, and to recommend to both governments such action as may appear appropriate."

<sup>15</sup> In the amended text recommended by the American oil industry subsequently, and accepted by the government, the word "competitive" is suggested as a substitute for the word, "fair."

If the two countries (and others that might later join them) choose, they could on the basis of this agreement avoid future controversy over the command of oil supplies; and they could arrange joint measures that would contribute towards the security of all. The discussions from which the agreement emerged indicated a strong impulse towards co-operation. Suspicions vanished. The Americans became far less convinced that British interests were disposed to displace or injure them. The British became less inclined to think that the Americans wished to make political trouble for them, or to run amok in the world petroleum market. A vista of division of opportunity was opened.

The agreement could, as the authors hoped, form the basis of a program of increased oil production in the Middle East gradually developing that area as a world supplier commensurate to its great resources. It could make this achievement possible without harsh commercial warfare, and without the exercise of rival diplomatic activity in a dozen small Arab states.

Of course, results of this kind would not grow of themselves. They would only be fostered by fairness and compromise. They would flourish only if the two governments acted in harmony on political matters. And only, also, if the great oil combinations of the two countries showed moderation. For these would be called upon to divide both production and markets with each other, to admit new applicants for opportunity in fields still open, to suffer competition, and to provide oil to the whole world as cheaply as the best technique makes possible.

Further, the two original participants would have to satisfy other countries interested either in obtaining for-

eign oil supplies or concessions. They did not offer to give up to others rights already acquired. But they pledged themselves to share all other opportunities to acquire rights and thereby granted recognition to the wishes and aims of others. Of all countries the USSR was most likely to put this promise to a test some time or other.

Such were the reflections of the Economic Adviser, quite without consequence—for he was no longer in office.

The reflections of the American oil industry took quite a different turn. The angry belief of its representatives that they had not been sufficiently heeded now found voice. Its spokesmen showed little interest in the merits that patient search could find beneath the obscurity. Their interest centered on a blunt set of questions—would the agreement, could it, might it, hurt or restrict their operations? They soon concluded that it was likely to; and some sections even expressed the opinion that this was its real purpose.

## XIV

### THE AGREEMENT IS REJECTED



THE delegations attached their signature to the agreement on August 8, 1944. It might have been thought that so mild and aspiring a document would win easy acceptance. It was difficult to see how exception could be taken to the ample principles on which it rested. The loose garment of language in which the doctrines were clothed would make them comfortable. Surely, it seemed, the governments of neither the United States nor Great Britain would fail to give official confirmation to the terms their representatives had contrived to put together.

Ill-informed and moody tribes might fight in the desert for the control of the water wells that slaked their thirst. But the great nations, it was hoped, had learned that it was no longer necessary to struggle against each other in the desert for this other vital fluid. They could, if they worked together, find and develop a thousand wells to slake the thirst of their machines. These were the rules by which they might do so.

It was not possible to cherish this opinion long. The American oil industry angrily assailed the agreement, and the authors fell into confusion.<sup>16</sup>

<sup>16</sup> The objections were most systematically set out in a resolution of the Petroleum Industry War Council early in December, which called upon Congress not to ratify the Treaty. *New York Times*, December 11, 1944.

A systematic statement of the view of the larger oil companies

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Certainly, in part, the criticism was due to misunderstanding of the involved and unclear form and language of the text. As has been observed, only the stubborn hunter could find its main meaning or interpret its subtleties. To the man on the street—or, rather, to the men in the oil industry—the text meant everything or nothing. And no clear interpretation was offered by any branch of government. It is doubtful whether they had one to offer.

But the opposition was not solely the result of misunderstanding. Some elements in the industry were ready to fight any government action which might stimulate foreign oil production. They rejected the conclusion that American security required restraint in the use of domestic reserves and larger drafts on foreign oil supplies. This attitude was expressed in a superfluous suggestion advanced later—that the agreement be amended to state in specific language that it did not affect the right of the participating governments *to limit imports*.

But even those elements of the industry that were ready to accept the judgment that it was advisable to encourage production of oil abroad, and to work out an international basis for doing so, found the proposed text objectionable. They interpreted it as a threat that the American government would extend a controlling hand over their domestic operations, or perhaps even enter into competition with them. They feared that in the vague

on policy in the foreign oil field may be found in a brochure published in November 1943, when reports of the stock-purchase plan spread. It is entitled, *A Foreign Oil Policy for the United States*. A basic point that is well argued is that "oil in the hands of nationals of the United States is equally available for national security with oil owned or financially shared in by the Government of the United States." Will this be as true in the future as in the past? Will it be true of all locations?

language of the agreement there lurked new authority for the government to do so. This fear was confirmed by legal advice that if the agreement was brought into force as a treaty, the government would be able to ignore the presently presumed limits on its constitutional powers to regulate the industry.

The industry felt that if the government obtained extended powers of control, these would probably be used. It wished for vigorous and unfailing government support in foreign operations, but without subjecting itself to the will of the government. The observation of the Economic Adviser had been that the oil companies were usually ready to respond to guidance, to follow informal advice when it did not mean financial loss; but they were quickly aroused by any sign of official restraint or compulsion. Against that danger they had come to believe eternal vigilance was necessary. In the thicket of phrases composing the agreement, danger—of shape unclear—was scented.

There was ground for the belief that the operation of the agreement might be used to curb the future freedom of private oil interests in some respects. But this would have come about, if it came about at all, in less direct ways than those visualized by the industry. It is quite possible that the rules set forth in the agreement would operate contrary to the plans or advantage of some oil enterprises engaged in foreign operations; and the government might find it necessary to exert itself to secure observance of the rules. For example, an oil company might find itself in a position to obtain exclusive rights to an extensive oil-bearing area, and averse to sharing this opportunity with others. It is interesting to wonder, for

example, whether the concession later obtained by the Sinclair Oil Company in Ethiopia would have been allowed under the agreement, had it been in effect.<sup>17</sup> In such an instance the government might not be in a position to compel obedience to its views; but in indirect ways it could make resistance to its opinion inadvisable.

Then too, the agreement provided for the creation of an International Petroleum Commission with power to study and to make recommendations in regard to all phases of the international oil situation. This commission might make recommendations that would encourage an extension of government regulation or control of private oil operations. The American government might act upon these recommendations—seeking the support of public opinion for new legislative authority to do so. An instinctive grasp of such possibilities probably spurred on the opposition.

Some branches of the oil industry, including large companies that were engaged in foreign operations, expressed dissatisfaction on still another ground. They objected to vague hints in the text of future arrangements for the division of production and marketing among competing sources of supply. Charges were made that a “super-cartel” was planned. Some officials of the State Department had in the earlier drafting sessions shown themselves inclined toward an arrangement for the regulation of international trade in oil. The Economic Adviser recalled the necessity of arguing that any world plan of this kind was undesirable and impossible to negotiate. The signed text retained a whiff of the idea.

<sup>17</sup> For text of this concession, see *New York Times* of September 7, 1946.

It would be unrewarding now to try to gauge further the correctness or fairness of this array of doubts and criticisms. Certainly some were expressed in extreme form and measure. The objectors prepared to fight the agreement with all their might in the Senate.

The State Department had felt it prudent to yield to the demand of the senior Senator from Texas that the agreement be submitted to the Senate as a treaty. It was transmitted to the Committee on Foreign Relations. By the time it arrived in the committee room it was only breathing faintly. Again the nurses and defenders showed no great will to save their patient. The Petroleum Administrator for War and the Secretary of State were meek and conciliatory. The Petroleum Administrator for War, it may be surmised, did not want to engage in new disputes with the American oil industry when good relations between government and industry were so important to the conduct of the war. The Secretary of State, it may be surmised, did not want to imperil cherished designs for international political organization by falling into a fight with the powerful Senate Committee on Foreign Relations.

Thus, the defense was muted. It was pleaded that the agreement merely set forth principles which the American and British governments were ready to pursue; that the application of these principles would provide new opportunity for American private oil enterprise; that the agreement would not add to the power of the American government to control or regulate the oil industry; that the International Petroleum Commission would be authorized only to give advice and make recommendations; and finally that the agreement would clear the way for



other steps urgently required to protect the security of the United States. Thus, the Petroleum Administrator for War on December 9 argued that

“by virtue of the Agreement not only will greater security be assured for the concessions American operators now own, but the application of this Agreement will operate to open freely to the United States enterprise areas in which they have not heretofore been able to compete.”

The government decided that if approval was to be obtained for any international oil agreement, the opposition of the American oil industry must be overcome. The Petroleum Administrator for War, no doubt by this time reflecting upon the impotence of office, undertook to work over the terms of the agreement in consultation with the industry. A search for amendments that would satisfy the industry without destroying the purpose of the Agreement began. The President, in order to improve the atmosphere for these new discussions, requested the Committee on Foreign Relations to return the agreement to him

“in order that consideration may be given, in consultation with the Government of the United Kingdom, to whatever revision appears to be necessary to achieve its objectives and remove grounds for misunderstanding.”

The following months were given over to discussions between the Petroleum Administrator for War and the industry. There were at first tense sessions in which it seemed the industry seemed bent upon demands that would have made the agreement useless. Gradually its worst fears were quieted. Then a sporadic battle of opin-

ion broke out between government departments. But general agreement on a possible new text was finally reached.

In the autumn of 1945—almost three years after the Saudi Arabian fields attracted the attention of the government—the way opened again for the resumption of negotiations.

## XV

### THE RIVALS HUSTLE; AND THE USSR ENTERS THE CONTEST



WHILE Americans were arguing over the pipe line project and the oil agreement, events outside did not stand still. The oil of the Middle East continued to press for release. Each of the established companies hustled to improve its situation. Other American and British companies went concession hunting in Iran. When the government of the USSR did likewise, the Iranian government sought refuge in a denial of all requests. The echoes of this action were later (1946) to resound in the first major dispute before the United Nations. Competition for the oil of the Middle East became more provoking.

The Arabian-American Company stepped up its production rapidly and carried forward the construction of a great new refinery on the Persian Gulf. The Bahrein Petroleum Company (a virtual partner) expanded its refinery on the nearby island of Bahrein with, it may be noted, the aid of a loan from the Defense Supplies Corporation. These two measures were urgently recommended by the Navy and Army to provide increased supply of oil for the war in the Pacific. Buying contracts of the Navy have since enabled this expansion of production to go much further—to reach almost 200,000 barrels a day by the middle of 1946. Thus the wholly American-

owned properties in the Middle East have already gained place among the important oil producers.

The Arabian-American Company completed surveys for alternative routes for a pipe line to the Mediterranean. But no one knows whether, or when it will be built, or how it will be financed. Quietly, and with the discreet help of our diplomatic missions, discussions were carried forward with the governments whose territories the pipe line might traverse. There appears to be no doubt of the consent of Ibn Saud, ruler of Saudi Arabia. It is conceivable that he might, should events in Palestine offend, reject this prospect of great revenue. But it is not likely; Arab rulers, no matter how absolute of demeanor, are not exempt from the charges of their followers. With the authorities of Palestine and Transjordan agreements have been signed. Egypt has been reported to be eager to have the terminus located there.

The rulers of the area now beckon the company to proceed. But it still wavers. For the political atmosphere in the Middle East and the commercial prospects both of the pipe line and of expanded production remain unsettled. Dare it risk great capital in an area so seething with political disputes unless it is certain that some government—presumably the American government—would protect the venture in all circumstances?

Dare it overlook the fact that a great further expansion of production might not be profitable for the first post-war years? Navy contracts are not forever. The *total* production of Middle Eastern oil, doubled as it has been for purposes of war, may exceed available commercial markets for some years. And the refinery capacity located on the Persian Gulf may exceed demand for the

products that can be profitably shipped from there. Further, in some of the prospective markets, the oil, perhaps, could only be sold for "frozen sterling," or other inconvertible currencies, for which the American companies have little need. Thus, the oil that the pipe line would expect to carry may remain under the desert sands for yet a while—remain where it was when only the shadow of the camel and the Bedouin fell across it. But the shadow of the passing airplane signals the approaching hour when the drill will reach it.

The other great oil combinations, the Anglo-Iranian and the Iraq Petroleum Company, were not idle. The former increased its production in Iran, and enlarged its great refinery at Abadan. It is well prepared to hold its own in the future oil trade. The Iraq Petroleum Company similarly increased its production and expanded its refinery at Haifa. It is preparing to build a second large pipe line from its fields in Iraq to the Mediterranean—paralleling the existing one. The French participants in this company are particularly eager to proceed; for France counts upon the oil of Iraq to provide most of its future needs with little outlay of foreign exchange. The mind is drawn to the possibility of a joint pipe line venture in which all the main participants in Middle Eastern oil production would have a common interest.

During the period (1943-45) that American public attention was centered on the oil of Saudi Arabia a crisis was being born in Iran. It had been signalled by earlier incidents. But these had been noted at the time only by the few officials in the State Department who initialed the long accounts that came in the diplomatic pouches.

A scant paragraph turned up in the press now and again—enough to reveal that something was afoot but not enough to mark its importance. The news was hard to obtain, and harder to transmit; for the Iranian government maintained a smothering censorship. The most alert reporters were absorbed in the far greater story of the defeat of Germany; the mighty commentators had no thought to spare for the incident.

Two promising oil-bearing areas within Iran were still open to the seekers of concessions. One was in the eastern part of Iran, just north of the land under concession to the Anglo-Iranian Company. The other stretched through the northern provinces.

In 1936 an American group had sent a former American diplomat, whose glad and ready pen had long given pleasure to the readers of his dispatches, to explore these opportunities. He procured rights to explore much of both areas, to select 100,000 square miles to develop, and to build a pipe line to the Gulf of Oman. But the Amiranian Oil Company, as the group called itself, never sank a drill. The supporters of the venture faltered over the economic and political hazards. Well they might have, for it is difficult to compute how oil from this remote interior could have competed with the new undertakings that were under way in Saudi Arabia and Bahrein. When Ogden Mills, former Secretary of the Treasury, died, and his heirs withdrew their inheritance, the concession was returned to Iran. During the whole of this short business flight near its borders, the government of the USSR maintained what was interpreted as indifferent silence. The American oil industry periodicals published reports, based on obscure accounts in the Russian press,

that the government of the USSR had sent a complaining letter of protest to the Iranian government.<sup>18</sup>

When in 1943 American oil companies showed renewed interest in his domains, the Shah and his cabinet were pleased. The budget was hugely out of balance, and the reforms and economies upon which his American financial adviser was insisting had many enemies. Most of his country was under Russian and British occupation. The presence of Americans was, therefore, reassuring. Thus the Socony-Vacuum Company was invited in September 1943 to begin discussions. The Royal Dutch-Shell almost simultaneously put in a bid. While the proposals of these two groups were under study, a new entrant appeared, the Sinclair Company. Both of the American companies, it should be noted, sought rights in the eastern part of Iran, adjoining the Anglo-Iranian fields, and six hundred miles or so away from the Russian frontier.

Now confronted by a diversity of prospects, and under watchful suspicion that it give away Iranian wealth too cheaply, the cabinet sought independent counsel. It hired (in April 1944) a private American firm of oil consultants to prepare a standard form of concession to which all applicants might be asked to subscribe.

This pursuit of the unassailable concession was rudely interrupted. A few weeks later the Iranian government was informed that the Assistant Commissar for Foreign Affairs of the USSR wished to visit Teheran to discuss oil. He shortly appeared in company with a formidably large group of geologists and other experts. On October

<sup>18</sup> See the *Oil Weekly* Volume XC, No. 2, p. 54. It may be of interest to record that the Amiranian Company undertook, as a feature of the agreement, not to allow the majority of its stock to fall into the hands of "Non-Iranians" or "Non-Americans."

2 he asked that the USSR be granted an exclusive five-year right to explore the country that ran from Azerbaijan through the northern provinces. This was a different territory from the one in which the American companies were interested. Almost all of it was occupied by Russian forces.

Almost a quarter of a century before the government of the USSR had renounced all the economic privileges the Czarist regime had acquired in Iran, in proof of its revulsion against imperialism and exploitation of weaker powers. It is idle to speculate now whether it was spurred on to this reversal by a newly felt need for oil, lured by a wish to establish its influence more firmly in Iran, or provoked by the apparently unlimited quest of American and British interests for oil rights everywhere. It has more lately become known that the Russian oil industry suffered severe war damage, and production within the USSR may not suffice for all future demand.<sup>19</sup> If these be

<sup>19</sup> The *Economist* (March 30, 1946) estimates that production was at the rate of 30 million tons yearly in 1938<sup>8</sup> and rose steadily until 1941. Then the Germans seized the Kuban (Black Sea) region and the Maikop (northwest Caucasus) region and imperiled the Groszny fields. The minimum loss from the destruction was an annual yield of 5 million tons. The USSR was not able to increase production in other fields correspondingly because of shortage of equipment and trained workers. This experience may well have evoked fear regarding the sufficiency of supplies for the reconstruction period. The *Economist* concludes its survey of the situation by observing that "a period of anxiety for to-morrow's oil has clearly set in. . . . Nowhere is this better illustrated than by the part that oil plays in Russian policies concerning the peace treaties. The chief Polish oil-bearing district of Droholyecz-Borislaw, and in Asia, the island of Sakhalin have been embodied in the USSR. In South-eastern Europe Russian control has been established over the plant and output of the Rumanian, Hungarian and Austrian industries. The total gain is perhaps 5,000,000 tons annually."



the facts the Russian demand for a concession in Northern Iran must have seemed but a counterpart to American and British activities. The brisk bidding of foreign companies and the appointment of an American firm as counsellors may have been read to mean that there was little time left if the USSR wished to share in the control of Iranian oil. Such a wish might also have been strengthened by the view that if American interests acquired a permanent position in Iran, that might some day prove disadvantageous, or even dangerous to the USSR.

But this is all conjecture. At the time the Russian mission stepped from behind a wall of secrecy that had seemed veiled by indifference. The representatives of the foreign oil companies were startled. The Iranian government was upset and unhappy. It was afraid to grant the Russian request, afraid of admitting representatives of that revolutionary state into areas so near its frontiers. The rule of the central government over these northern provinces had long been poor and weak; with Russian troops in occupation it had become poorer and weaker. How to refuse the Russian request without giving it plain cause for retaliation was the problem. The cabinet that had failed to remedy any of the ills that beset its people showed that it had not forgotten the arts of outwitting foreign governments. On October 8 the Foreign Minister informed the Russian emissary that the cabinet had decided to postpone all action on oil concessions until the end of the war. The USSR showed its resentment in outspoken press criticism, in the encouragement of demonstrations, and by interfering with the shipment of Iranian goods in and out of the occupied provinces. With some temerity the legislative body (The Majlis) a few weeks later passed a bill prohibiting any cabinet minister from

granting any oil concession to any foreign government or company. The Vice-Commissar publicly termed this action "obstructive and objectionable"; he argued that it was inconsistent with the existence of other foreign concessions in Iran. After so signaling the opinion of his government, he departed for Moscow.

This whole incident passed unobserved in Washington except for a few officials immersed in Arab affairs and a few military men concerned with the movement of war supplies through Iran into the USSR. No one cited it as a reason for making haste with the final conclusion of an international agreement. No one felt that the government of the United States could do anything about the situation; and, indeed, it was difficult to see what it could usefully do. Any gesture intended to assist the USSR to secure control over the oil resources of Northern Iran would have been resented in Britain and regarded as a betrayal by the ruling elements of Iran. Besides who knew with certainty what use the USSR would make of the concession? The Teheran Declaration (of December 1943), whereby the three great powers had affirmed the independence of Iran, did not command complete faith while armies were still in occupation.

Perhaps, it was thought, time would heal this newest scar in the contest over the oil resources of the Middle East. But it did not. What generation was it that could believe that "time cures all ills"? What stubborn germ in the blood stream of nations defeats its reconciling effect? That is our enemy.

## XVI

### THE AGREEMENT WITH GREAT BRITAIN IMPROVED AND CLARIFIED



**B**UT such lugubrious reflections deserved no place in the mind of the Petroleum Administrator for War as he sweated to arrive at an understanding with the American oil industry. The task took many months. There were misunderstandings to be cleared up, hard words to be forgotten. But patience prevailed. At last in September 1945 he could take a plane for London with a new text in his pocket and powerful representatives of the industry at his side. The mission was brief and satisfactory. A revised agreement was quickly signed. It improved upon the earlier accord in two connected ways.

Some points that had been most obscure were cleared up and simplified.

It was made acceptable to the dominant elements in the American oil industry. Hence it will probably win the ultimate approval of Congress. Whether this has been accomplished without vitally impairing its usefulness experience alone will show. Whether the Government will find itself unable to induce or compel observance of the "principles" endorsed in the agreement, because it might be to the disadvantage of some group, cannot be foretold. The Petroleum Administrator made the correct basic decision in assenting to various demands of the in-

dustry in order to secure some recognized basis for the adjustment of urgent international issues.

The main structure and principles of the earlier text, as understood by its negotiators, remain unchanged. Attention need be directed to only a few significant amendments.

The earlier text gave approval to the doctrine that oil should be made available to all countries on a "fair and non-discriminatory basis." This was changed into a "competitive and non-discriminatory basis."

In the new text it is more explicitly stated than in the earlier one that the International Petroleum Commission (to be created) is to stay within clipped and restricted boundaries. It is assigned only tasks of "study" and "report." But any eager international organization, if it is up to its job, is apt to stray over the boundaries that over-cautious national draftsmen feel compelled to impose. Presumably the commission would be permitted to "report" ideas and proposals as well as simple fact; presumably it will be permitted to think aloud. The language of the accord is not as clear as it might be on this point. The intention of the authors was to calm the fear of the American oil producers that the commission might become a licensed source of disturbing suggestion.

The better to make sure that any judgments of the commission should not be thought to have authority the new text now provides

"that no provision in this agreement shall be construed to require either government to act upon any report or proposal made by the Commission, or to require the nationals of either government to comply with any report or proposal made by the Commission, whether or not the report or proposal is approved by that Government."

The industry is thus left free to dissent from even such reports of the commission as may be designed to give effect to the principles which the signatory governments endorse.

Another new clause in the agreement is intended to make clear that no one can argue that tariffs or other trade restrictions are contrary to its purpose. It is stated that nothing in the text shall be construed as impairing the right of any participant to regulate imports into its territories. The practical meaning of this new clause was left undecided. The American representatives are said to have been of the opinion that while it affirms the American right to exclude all foreign oil, it does not affirm the British right to import oil for which it could pay in sterling in preference to oil for which it would have to pay in dollars. The British representative is said to have maintained the opposite view; notice was given that if Britain were short of dollars it might have to restrict imports of "dollar" oil. This question might be a subject of dispute later. The Economic Adviser would not like to have to defend the consistency of the American position—if it has been correctly reported to him—before a jury of his peers.

The history of this agreement illustrates again that long and hard is the effort needed to make any plant grow in the stubby international field. This one still awaits planting. Years of care will be needed before it can come to bud, to flower—years of devoted care, and of good weather. With these it could become the forerunner of an important species.

Countries throughout history have fought each other for control of the sources of vital raw materials. They have grasped with little restraint and shared only when

they found it advantageous. They have acknowledged no obligation to provide for the needs of others on fair terms. In this new oil accord the British and American governments affirmed a willingness to observe other rules—to respect each other's interests, to adjust differences by discussion, to share opportunity, to show regard for those dependent on the supplies they controlled.

The treaty is only a tremulous beginning by the two governments to adjust their interests and activities, and those of their nationals. It was proffered as the basis of a more comprehensive accord among the nations. Up to now it aroused little interest in the United States and won little applause. It has been beset by suspicion, and by the wish of groups that might be affected by its operation to protect themselves against possible injury. Will Congress approve it? Will it turn out to be of genuine importance? The great libraries of the world are cemeteries for ignored international agreements of this character. There they rest on unvisited shelves, mourned only by some obsessed student of the past or some civil servant who earns his living by familiarity with forgotten strivings.

## XVII

### ORDER IN OIL



THE Petroleum Agreement will have only as much vitality as there is public appreciation of its necessity. The first test of its usefulness is likely to be in the Middle East. It was in that direction that the Petroleum Administrator cast his words, upon his return home. The treaty, he is reported to have said, would remove restrictions under which it was difficult for Americans to operate in Saudi Arabia and other parts of the area. He added that it would establish there what the Administrator, proving himself a man of homely expression, termed, "honest-to-God competition."

These promises may be fair. But they are not very instructive. How would they be realized? What equivalent adjustments must be made by American enterprise? What will be their significance, if realized? Did the Administrator conclude that the most certain way to win approval for the Agreement was to present it as a minor triumph in bargaining with a foreign power?

Let us ask a larger question. What policies must the American and British governments pursue in regard not only to oil, but also in regard to political and military affairs, if the treaty is to have genuine significance? For the stream of oil now flows into the broad ocean of events.

The Economic Adviser felt impelled, out of habit,

as he studied the agreement and the current news, to compare the present outlook to that of a few years before—and also to try to figure out the next indicated steps. The probable need of Middle Eastern oil as an emergency reserve seemed less imperative than it did in 1943. Its military usefulness also appeared less clear. The subject was tending to reduce itself to ordinary economic dimensions—except in one respect. We may still be drawn into bitter dispute with other nations over the ownership of rights in the various fields. In other words, the fate of the American enterprises in the Middle East may not be as important a factor in determining whether the United States has a sufficient supply of oil for peace or war as had been earlier thought. But their importance as an element in the political and power relationships between ourselves and other countries has grown. Our policy should recognize the transformation. It should continue to reckon the possible usefulness of the oil of the Middle East in peace and war; but it should carefully select means of protection and development that do not cause dissension.

Recent experience has defined rather clearly the elements of a satisfactory policy. The Economic Adviser listed them.

First. The amended agreement with Great Britain should be brought into effect at once. Then as soon as the American and British authors of the agreement have familiarized themselves with its field of operation, the full participation of the USSR, France, and the producing oil countries should be solicited.

Second. The provision for equality of opportunity in oil fields still open should be construed to mean not only



equality *to compete for* new opportunity, but also a disposition to *share* such new opportunity among all qualified nations. The government should be moderate in support of further efforts of American companies to secure new concessions in the Middle East and counsel them to be moderate in their aspirations. Each of many of the larger American oil companies now seems eager to acquire its own source of supply in the Middle East, lest some day it be at the mercy of its competitors. Care must be taken that this competitive reaching out does not defeat itself by provoking hostility.

Third. The International Petroleum Committee should devote study to the development of a program of coordinated production in the Middle East. This program should guide the rate of growth of total Middle Eastern production so that it will not swamp world markets in some periods and lag behind the growth of world demand at others. Agreement should be encouraged as to the rate of new development in each of the main Middle Eastern fields. If the Arabian-American Company decides to construct the pipe line, the American government should show itself disposed to share the financial risk. It would be well to encourage at once consideration of the possibility of creating a unified system of pipe lines—both to the Mediterranean and to the Persian Gulf.

Fourth. Increased royalties from production in Saudi Arabia would be the most satisfactory solution for the deficits in its public finances. It is already proving itself to be so. The current increase in production has so enlarged royalties that now (August 1946) the deficit for 1946 is estimated only five million dollars instead of the eleven millions earlier anticipated. Further development of the oil fields of that country would also enlarge the

income of the people and provide the means by which agriculture and other forms of suitable local production can be improved.

The immediate growth of production, and the royalties received therefrom, may not be wholly sufficient in the future to meet Ibn Saud's reasonable needs during the next few years. This situation, the Economic Adviser knew, had induced earlier suggestions that the American government make loans or advances. President Roosevelt, at his meeting with Ibn Saud, gave enthusiastic hints of the help that might be expected for various internal projects. In the middle of 1945 the State Department quietly tried to convince influential members of Congress that American security made it advisable to provide the funds—as much as 50 million dollars was suggested. To what extent this initiative arose from a wish to aid the oil companies, or to what extent it was prompted by a desire to cement, through Ibn Saud, American friendship with the Arab world the Economic Adviser did not know. Nor did it make much difference; for the two purposes are closely connected. The State Department was advised that Congress would only provide the funds if the United States received some evident reciprocal advantage or some reliable guarantee of repayment. Thereupon flexible young draftsmen were attracted by the possibility of tying together a governmental loan and American interest in the oil fields.

Then in the late autumn of 1945 Ibn Saud had been offered a 25 million dollar advance by the Import-Export Bank (in addition to 5 million already granted). This time the sovereign of Saudi Arabia refused. Among the reasons given for the refusal was a phrase in the contract drawn up by the lawyers of the bank that Ibn Saud con-

strued as requiring a pledge of oil royalties towards repayment. The sponsors of the proposal convincingly explained that they had no such intention. All that was sought and properly sought was a promise that such royalties would not be transferred to other lenders. Among the circumstances of the refusal was a plea by the Egyptian government to avoid new connections outside the Arab League.

But in the spring of 1946 the ruler of Saudi Arabia hinted a change of mind. This was before the publication of the American-British report on Palestine and subsequent events. These did not deter the arrangement in August of a ten million dollar credit "to modernize Saudi Arabian transport and agriculture." The swelling oil royalties should, if properly employed, take care of further needs. The American government will be ill-advised to acquire a large debt against this Arab people.

Fifth. The American government should be ready to provide proper aid and protection to the American companies against oppression or unprovoked disturbance. It would have to retain, of course, full freedom to decide whether to exert itself in their behalf, when and by what means.

Sixth. The extension of our financial, political, and military activities throughout the Arab world should be marked by the will to secure close working agreement with Great Britain, the USSR, and France. Our purposes in all these activities should be to aid in the settlement in any disputes that might arise within the region, and to aid its economic evolution.

Whether the American government should try to retain or establish, solely for its own use, any type of military base in the area may be debatable. Our war plans

included the establishment of a landing field and base in Saudi Arabia. This was designed as one stop on the route that American long-range bombers would take in their battle for the reconquest of China and victory over Japan. The President, at his meeting with Ibn Saud near the Red Sea port of Jidda in February 1945, suggested that the United States be permitted to establish a field for the use of American air forces during and after the war. Ibn Saud accepted the chance to increase his claim for friendliness upon the American government. But he demurred at the nature of the arrangement suggested and at the length of time for which the privilege was sought. The substance of these conversations was carefully guarded at the time; but it is safe to surmise that they were known in London and probably in Moscow.

Construction was begun before any final arrangement was concluded; and Japan surrendered before construction was complete. The field is now ready for use. The terms of the agreement, as finally settled, have not been officially published. But the press has given the main details. Its control is to revert to the Saudi Arabian authorities in the near future. That government is to select an American commercial line to maintain and operate the field, which is to be open to the commercial services of all countries on equal terms. To this arrangement, there can be no objection.

Dogmatism in regard to the steps that the future evolution of power relationship and the arts of war may make advisable would be foolish. But today's circumstances and hopes join to indicate the conclusion that the United States should seek only commercial aviation rights and facilities within Saudi Arabia. The military value of any aviation or naval outpost within that land would be small,

and its defensibility doubtful. The maintenance of any American military base in that country would be provocative and contrary to the current bent of our effort to find the terms of permanent peace between the great powers. Certainly, no step of this type should be taken merely to assure continued American control of, or access to, the oil of the Middle East.

One kindred concluding reflection. That no program having merely to do with the protection of oil resources can prevent them from becoming a cause of dispute if the great powers quarrel about the political control of the region. If any one of them takes measures hostile to the others or encourages threatening attacks against established political position of the others, then each oil field in the Middle East will be the scene of turmoil, plot, and counterplot. Within the next year this may become a grave danger. Arab opposition to further Jewish immigration in Palestine might express itself in a repudiation of existing American and British rights and a search for Russian protection in such measures. This is highly unlikely; but if such a situation arises, it must be ardently hoped that the USSR will not exploit it. There will only be "order in oil" if the large powers work with, not against, each other in the management of political affairs of the Arab states. Otherwise, any international agreement on oil will be without future. Its phrases would be merely weapons to wound.

Here lies the test of future diplomacy. If it fails, there will be no harmonious way of assuring the availability of Middle Eastern oil to the United States. Whether or not we protect established American enterprises in the region against the troubles that may beset them will become pri-

marily a matter of military calculation. We shall have to bend over those plotting boards on which the rights and destinies of nations are measured solely in units of force. In other words, we shall be in the anteroom of war.

But this is a prospect we must seek to dispel. The United States will not find security by remaining the triumphant possessor of oil fields in the midst of another world struggle. That is not the true security in oil that we seek. Our task is a greater one than that of assuring continued American ownership of, or access to, any oil field in the world. It is, along with other countries, so to manage human affairs that oil will be wanted only for the lamps of peace. Then, and then only, will it become like water in a mountain spring—flowing freely out to all travelers alike upon payment of a small fee to the men who take care of the property.

EPISODE NUMBER THREE



*Oil for Italy: A Study in the Decay  
of International Trust*





# I

## THE PRAYERFUL RESOLVE OF 1919; THE DEFIANT CHALLENGE OF 1935



GERMANY surrendered on November 11, 1918. The long, dark months of life spent in muddy trenches in the ground had at last ended, and millions of soldiers could go home. The agony of mankind everywhere was over. A wild rejoicing rang throughout the world. There mingled with it a grave and prayerful resolve that the war that had just been fought should be the last great war. Men and women found consolation in the thought that the suffering they had endured might prove to be the birth pains of a new era of peace and brotherhood among nations.

The peace conference set about the creation of a covenant to bind all nations in peace, and provide for their collective action to support it. Within a few short weeks the representatives of the victorious Allies agreed upon that series of brief articles which was to become the Covenant of the League of Nations. The United States refused participation; it entered a period of barren isolation and sterile moral professions.

The concept of collective security became faded during the weary years of dissension that followed 1919. But still millions, everywhere, clung to the vision. When Germany became a member of the League a buoyant feeling arose that this vision might be realized. And despite the

failure of will and understanding at the time of the Japanese invasion of Manchuria, it seemed possible to think that in some future crisis there might be unity including the United States.

The rise of Hitler and the exultant denial by Nazi Germany of all the faiths on which the League rested shook its foundations hard. The leaders of Fascism drove a great shaft of hate through the heart of Europe, and at each penetrating stroke the League looked smaller and weaker. But the ominous threat roused all supporters of collective action to new exertions. Many perceived that only a firm union of purpose could prevent another terrible war. Thus, greater loyalty to the League was called forth, finding encouragement in the fact that the Union of Soviet Socialist Republics had emerged as a bold supporter of collective action.

This was the state of political striving and anxiety when Fascist Italy deliberately set about to conquer Ethiopia. In violation of its solemn word one member of the League was using cruel and brutal force to conquer another. If that was permitted, belief in the power of the pledged word to provide security to any would be at an end. The first great search for security through collective action reached its breaking point in the Italian-Ethiopian episode. It became the great crisis of trust between nations. They were called on truly to serve an ideal or let their society fall into decay and ruin.

## II

### MUSSOLINI PLOTS FOR AN EMPIRE



DURING the winter of 1934 the dictator of Italy, *il Duce*, decided to draw Ethiopia into the Italian Empire. That last fragment of Africa in which primitive black tribes still possessed their independence was a tormenting temptation to the ambitious leader of a poor people.

The stubby brown toes of the former Italian stone-worker had lost contact with the earth. They had been too long shod in the black boots of the Fascist militia; and the vain, excited mind mistook the polish that servants rubbed upon the surface for the gleam of greatness.

The favoring hour had arrived, he judged, to assume his historical place as a plotter of empire. The Parliament at Rome had quailed before his marching men; its views had no longer to be taken into account. The people of Italy were ready to follow where he led, despite qualms over his methods and fear of some final penalty. The better to manage, now he had for use among the snobs the dazzling titles and connections of a subservient royal house; and for use among the mob new military uniforms, work, and promises for a better future. At home there were none to restrain him. And among the other powers of Europe there were, he judged, none to compel him. These, he could read any morning in the articles that were penned for him, were internally divided, infirm

of will, and afraid to fight. They would censor him, they would chatter with indignation, but they would not stand firmly in his way. Nor would the United States, for the American people were disenchanted by their contact with European power politics and bewildered by economic depression.

The time had come to disregard the fabric of obligation which western diplomacy and finance had tried to weave about him. The display of moderation and quiet behavior had served its ends. It had disguised the restless forces that surged within and about him; it had helped him to earn foreign admirers and to cozen foreign lenders; it had enabled him to gain weight in the troubled European balance, which made other countries dependent upon Italy.

How best to deal with the combination of representatives that met in Geneva as the League of Nations was a problem of tactics, not of morals. Italian signature of the Covenant had been attached in a time of exhaustion when men kissed words, not weapons. Perhaps the other members could be persuaded to accept, to connive at the conquest of Ethiopia as a "colonial expedition." If Italian explanations were accepted at Geneva, Italy would remain in the League of Nations; that might be a useful arrangement for later diplomatic maneuvers. If they were rejected, Mussolini would tear at every weak shred in the League structure to pull it down. Without the League, the world would be a freer place for men of domineering will like himself.

The first steps in the campaign of conquest were modeled upon most successful ventures of nineteenth-century imperialism in Africa. In December 1934 a minor affray

occurred between Italian and Ethiopian troops at a remote spot named Wal Wal. It was one of many of its kind in an area where an exact and accepted boundary line had not been drawn between Ethiopian and Italian colonial territory. The Italian propaganda organization produced false versions of the event, and with indignant fury affirmed that redress must be given. The Italian government put forward demands for substantial reparations. It rejected all Ethiopian proposals to arbitrate the question of responsibility for the incident, although the treaty signed by the two governments in 1928 provided for the peaceful settlement of such disputes.

Behind the turbanned dignity of the Ethiopian representatives and their nobly-phrased utterances there stood only a weakly united group of primitive peoples. Some were of proud and ancient lineage, who, aided by desert and mountain, had defended their liberty fiercely against many enemies. Others were untaught and unruly bush tribes; the League noted that trade among them in human beings, to serve as slaves, had not yet come to an end. The decision to admit Ethiopia into the League had been influenced by the thought that if left to stand alone outside, the country would become a battleground for rival imperialisms—each seeking to round out or strengthen its African possessions. Once within the League it would be able to live under the protection of Article 10, whereunder all members undertook “to respect and preserve as against external aggression the territorial integrity and existing political independence of all Members of the League.” Thus safeguarded in its independence, the thought ran further, the country could, under the tutelage of the League, gradually rid itself of barbaric rem-

nants of the past and achieve economic improvement along lines suited to its people.

The pledge contained in this article of the Covenant was for the Italian government in 1935 merely a trap upon its way. To the French government it was a clause useful if it could serve to protect French frontiers, but not commanding any act of sacrifice in behalf of others. To the British government it was a commendable doctrine and a worrisome responsibility—to be borne if it was jointly borne, to be bent if its rigid form proved too great a hindrance to accommodation in greater matters. To the American government it was a frightening invitation to share the terrible burden of imposing order on Europe's long disorder.

The Ethiopian government brought the border dispute promptly to the attention of the League. In January 1935 it asked the Council to recognize that a threat of war existed, and, in accordance with Article 11, "to take any action that may be deemed wise and effectual to safeguard the peace of nations." The Emperor was dissuaded from demanding immediate consideration of this request and was advised to continue his efforts to arrange a settlement by direct negotiation with Italy.

That the governments of the larger League members should not have had insight into the true intent of Mussolini seems incredible. But the government of France was determined to take a friendly view of Mussolini's adventure. An agreement between France and Italy adjusting various direct differences between them was on the point of signature. Italian partnership in checking Germany was deemed of far greater weight in the balance of French security than the maintenance of the letter of the League Covenant. Perhaps the French cabinet thought

also that if Italy became entangled in Ethiopia, there was less chance that demands against Tunis would be pressed.<sup>1</sup>

The government in power in Great Britain also was eager to believe the best of Mussolini, inclined to admire what they took to be a certain regenerative force in his doctrines, and disinclined to have the seizure of a stretch of territory in the middle of Africa elevated into a grave issue. Distance had always furnished license to the use of violence. The division of Africa had been brought about before by the boldness of hotheaded majors; and no insoluble quarrel had been provoked among the powers of Europe. A few deftly worded pledges of friendship and allegiance had often served as a swift and easy means of satisfying the demands of superior force. Need there now be recourse to the ponderous formalities of international conference? Need there be exposure to the thunderous echo of principle?

Haile Selassie, Emperor of Ethiopia, would have been well advised to stand his ground, to live or die, right then and there. But he felt it best to give proof of patience to the countries whose influence would decide whether the League of Nations *ever* gave his country protection. So often in history the suppliant has tried to merit help by patient endurance of injustice and suffering—and usually only given the impression that he was by nature made to bear them.

At all events, the patience of Ethiopia inspired none to vigorous acts of support. The dispute was evaded again at the next regular meeting of the Council in March. Consideration of the Ethiopian dispute was laid

<sup>1</sup> Laval, Prime Minister of France, gave a disjointed exposition and defense of his policy during this period at the trial of Pétain. For his testimony, see *Figaro*, August 4, 5, 6, 1945.

aside till the May session. This decision was taken by officials that heard a detailed and accurate exposition of the advancement of Italian military preparation along the Ethiopian frontier. The Council permitted this account to be draped over by Italian protests and avowals. It continued to manifest at least an outward faith in the possibility of settling the dispute by conciliation—though all talk since the last meeting had only added items to the bill of recrimination.

At the May session, after listening again to a tale that could only have one meaning, the members of the League still chose to believe it might have another. They arranged for arbitral procedure and then adjourned, agreeing to meet again in August if, in the meantime, no accord had been reached. The guardians of world peace and order took a summer respite. All members longed to see a solution emerge from the atmosphere, so that they would not be compelled to grapple with a dispute which might tear Europe apart, and again, after less than twenty years, bring war. Laval used the interval to complete his secret military accord with Mussolini—contemplating joint resistance to German demands on Austria. Thereafter he was to prove himself ready to sacrifice the League and to strain his relations with Britain in order to preserve this accord.

During this trampling-down of the field of principle that had been planted at the end of the last war, Mussolini made no secret of what he wanted. The newspapers that Italians could buy with their coins were crammed with his utterances and the news cameras remained focused on the balcony from which he broadcast his contemptuous words and gestures. They gave no encouragement whatsoever to the notion expressed in the resolu-



tions by which the League explained its delays—that a possibility existed of a voluntary agreement.

For example, on June 8, Mussolini declaimed to his Black Shirts:

“We have old and new accounts to settle; we will settle them. We shall take no account of what may be said beyond our frontiers, because we ourselves, we alone and exclusively, are the judges of our interests and the guarantors of our future.”

His words were accompanied by preparations for war. Imports of military weapons and supplies were increased, naval and air exercises in the Mediterranean were extended, troop divisions were sent into Africa. All these were recorded in small items in the world's press but governments ignored them. Mussolini was learning how easy it might be later to cover a movement of troops and arms to Spain by lying denials that others wanted to believe.

In July, Haile Selassie asked the American government to call Italy to account under the Kellogg-Briand Treaty. Sponsorship of this treaty, in which war was renounced as an instrument of national policy, had made Americans morally proud of themselves during the isolationist twenties. But no leader now came forward to urge that the United States join other countries in arresting Italy, except that former Secretary of State who had tried vainly in 1931 to organize on the same frail document an international program of resistance to Japanese aggression. The reply, which the American government sent to the Emperor of Ethiopia on July 5, was merely a diffuse intimation of moral support, a prayer for the soul of the weak. The United States was preparing to try to legislate itself outside of this struggling world.

### III

## THE NATIONS TRIFLE AND MUSSOLINI ACTS



FINALLY, on August 3, the Council took the dispute directly in hand. The delay had been long enough to confirm Mussolini in his judgment that the Allies who had defeated Germany and frustrated Italy at the Versailles peace conference were struck down with a fatal infirmity. The agitated air of certain national representatives—among them the young British Minister for League of Nations Affairs—indicated that they knew that their dignity was being insulted and that the lawful ideals of the League were being mocked. The grave persistence of a few others, such as the representative of the USSR, indicated that they feared that Italian victory would be a prelude to an attack upon themselves. But around the horseshoe table at which the Council met, the anxious diplomats maintained a mask of calm. As though the grey vertical stripes in their uniforms were confining bars, they moved with slow and watchful step. They suppressed all sense of affront and refrained from condemnation.

A dual program was devised, one that could prepare the way either for joint action against Italy or for a compromise with Italian demands. The preparation for action took the form of an announcement that the Council would examine the situation in its general aspects at a

meeting to be held early in September.<sup>2</sup> The preparation for compromise took the form of a suave blessing of further efforts of the French and British governments to cajole Mussolini and Haile Selassie into a direct settlement. Any such settlement, each speech-maker vowed in his turn, would have to satisfy the standards of the Covenant and be approved by the League.

The British and French hurried their efforts to arrange a settlement before the scheduled September meeting. Mussolini ignored them. He did not wait for the appointed conciliators to report back their failure to the Council. He resorted instead to a series of those warnings by which, he was learning, he could make all the settled peoples of the world hug their forlorn safety all the more tightly and keep their eyes averted from his actions. The more firmly they sought to ignore his insults, the more insolently he shouted them through the night. On whatever road the peaceful traveler went, he met the papier-mâché image of that round bald head bawling out defiance.

<sup>2</sup> The Council had, consequent upon German action in quitting the League, created in April 1935, a committee "to propose economic and financial measures that would render the Covenant more effective in the organization of security." This committee had examined the possibilities of taking such measures in application of Articles XI and XIII. Its report was to the effect that they would be in order, as preventative measures under Article XI, for the purpose of removing a threat to war; but it also pointed out that individual member states were not under any *general legal* obligation to comply with recommendations made by the Council under Article XI. The League refrained, however, from any attempt to use sanctions as a *preventative* measure.

The technical work of this committee was of use later. However, the actual steps taken by the League after the invasion of Ethiopia exceeded in scope those with which the committee concerned itself.

On August 26, he took note of reports that despite his agreement with Laval, despite his earlier warnings, various members of the League seemed to be warming to the suggestion that economic sanctions should be used to compel acceptance of a dictated settlement. He declared, "It should be realized without possibility of misunderstanding that whoever applies sanctions against Italy will be met by the armed hostilities of our country." Simultaneously, the pages of the Italian press were full of photographs displaying the determined mien of the several hundred thousand Italian soldiers who by then had been deposited in Africa.

Within the Council, when it met on September 4, no common will expressed itself. The members were still averse to measures of restraint, and Italy was still unwilling to pay heed to advice or mediation. The outlook was prophetically described in Birchell's dispatch of that day to the *New York Times*:

"Progress [of concerted League action] is somewhat complicated by British urgings that Italy pledge itself not to resort to force until the Council had debated the Ethiopian matter to a finish. Italy will give no such pledge. Her troops are awaiting the word to advance. And it is curious how in this atmosphere all idea of pressure upon Italy to keep the peace seems to have faded. Sanctions are not even mentioned. The French have ruled them out and the smaller nations hesitate. It is a safe prediction that there will be no talk about them until the Italians are fighting inside Ethiopia. It is open to doubt if sanctions will be enforced even then."

On September 8, Ciano, then the Italian Minister for Press and Propaganda, rubbed in the weakness of the League. He contemptuously dismissed the efforts of the French and British governments to persuade Italy to let

Ethiopia off easy, to build the Italian Empire peacefully. He stated that Italy was "in any case decided . . . to consider as closed forever the period of attempt of pacific collaboration with Ethiopia."

But Laval was not to be bothered by sneers. He employed himself more industriously than ever to assure League sanction for the continuation of talks with the Italian dictator. For as long as it could be argued that a satisfactory settlement might be won by peaceful persuasion, the danger of a League decision to restrain Mussolini was deferred. Only by keeping this false promise alive could he be sure that he might not be cornered by his colleagues in the League or by world opinion, and be forced to consent to League action. The British Secretary of State for Foreign Affairs was not averse to this strategy. If it failed, he might find himself compelled by British honor and obligation to take the lead in defeating Italy in company that might then or later desert the cause.

The most informed and reliable historian of the event, Arnold Toynbee, relates that on September 10, Laval and Hoare reached a secret understanding in regard to their next moves. Whether it was merely verbal or whether it was written, has not been disclosed. It is impossible to judge its intention or significance with certainty. To Laval it was evidently gratifying, meaning, as he later informed the French Chamber of Deputies, that it ruled out "in a word—everything that might lead to war."<sup>3</sup> What meaning Hoare attached to his part of the bargain has never been explained. Perhaps he construed it merely as a promise to resort to economic sanctions first. Or per-

<sup>3</sup> A. J. Toynbee: "Italy and Ethiopia," *Survey of International Affairs*: 1935, Vol. II, p. 184.

haps merely as a pledge that Great Britain would not in any event act by itself. Only by some such friendly surmise as to his intention at this juncture is it possible to avoid a verdict of deliberate deception. For the speech he delivered the very next day in the halls of the League expressed a wholly different attitude. It sounded a wholly different note. It was correctly understood by his audience to affirm that Great Britain would not swerve in the fulfillment of its obligation to offer steady resistance against unprovoked aggression in violation of the Covenant, no matter who else might draw back.

This address was one of several during the second week of September 1935 that created public anticipation that Italian aggression would meet collectively organized opposition. The officials of the State Department had been up to that time virtually sure that the great powers of Europe, deeply troubled by economic depression and German violence, would not defend Ethiopia. But as utterance capped utterance at Geneva, all but the cynical became less certain. Officers who had climbed to cable-drafting positions by showing firm belief that the League rested on sand began to wonder whether they were correct.

When on September 22, the Fascist government rejected the latest set of proposals that had been formulated under the guidance of the Council, the members of the League could no longer evade the situation. The Council took its first major positive decision. It agreed to deal with the dispute under Article 15 of the Covenant. This article required a report "containing a statement of the facts of the dispute and the recommendations which are deemed just and proper in regard thereto." It was understood, that if the Council adopted the report received,

and if Ethiopia accepted it, Italy was obligated not to resort to war; if it did so it should become, under the terms of the Covenant, subject to sanctions.<sup>4</sup>

There was pride among those who knew that peace could not long be maintained by buying it from Mussolini. There was rejoicing among those who loathed the misbegotten pups of Fascism that had taken the place of Romulus and Remus under the seven hills of Rome.

Mussolini did not wait for the Committee of the Council to render its report. He invaded Ethiopia on October 2.

Whether or not, if the League during the summer had applied strong preventative measures against Italy (as for example, the imposition of a trade embargo or closing the Suez Canal) Mussolini would have been brought to his senses or induced to accept an arbitrated settlement is beyond knowing. The man was probably too far in the grip

<sup>4</sup> The essential parts of Articles 15 and 16 read as follows:

(Article 15) "If there should arise between Members of the League any dispute likely to lead to a rupture . . . the Members of the League agree they will submit the matter to the Council. . . ."

"The Council shall endeavour to effect a settlement of the dispute, and if such efforts are successful, a statement shall be made public giving such facts and explanations regarding the dispute and terms of settlement thereof as the Council may deem appropriate.

"If the dispute is not thus settled, the Council either unanimously or by a majority vote shall make and publish a report containing a statement of the facts of the dispute and recommendations which are deemed just and proper in regard thereto. . . ."

(Article 16) "Should any Member of the League resort to war in disregard to its covenants under Article 12, 13, or 15 it shall ipso facto be deemed to have committed an act of war against all other Members of the League, which hereby undertake immediately to subject it to the severance of all trade or financial relations. . . ."

of his own illusions and hatreds, and too sure of his secret allies and foreign sympathizers. And whether, in the event that such measures, or stronger ones, had halted Italy, Mussolini would have perished with his adventure is also beyond knowing. All that is clear now is that any suffering that might have resulted from action *then* would have been less than that which Fascism later caused the world.



## IV

### THE LEAGUE VOTES SANCTIONS



**D**URING the next six months the Fascist legions bombed and burned native villages and stormed their way across the deserts and over the high, rocky ridges of Ethiopia. This was before the Nazis had made cruelty and terror so common; the boasting reports of Italy's aviators (led by the young Mussolini) spread sickly dejection, occasionally fired by contempt. But the governments in council at Geneva trod over and over again the same circles of indecision. They were no longer faced with a threat of war, but by actual war.

On October 7, the Council of the League declared: "The Italian Government has resorted to war in disregard of its Covenants. . . ." The condemnation was stated in terms that meant (under Article 16) *that Italy was judged to have committed an act of war not only against Ethiopia, but against all other members of the League*. These were pledged under the same article immediately to sever all economic and financial relations with the Covenant-breaking state. The Assembly, representing the whole League membership, concurred in this judgment. Of the fifty-odd members of the League only three expressed dissent—Italy, Austria, and Hungary. The assent of many of the rest, however, was reluctant and accompanied by little inner disposition to take risks or make sacrifices in support of the verdict.

But eager minds everywhere seized upon the declaration. Witnesses of the occasion found a look of earnest purpose in the eyes of even the most wary and traveled diplomats as they rose from their places. For the hour the masks came off and an expression of satisfaction showed through. The outsider could not follow the weary delegations to their headquarters along the Quai de Geneve. They could not witness the return flow of doubt as colleagues in national capitals distant from Geneva distributed caution over the telephone. Nor could they observe the animated assurance with which Laval talked to the Italian Ambassador, the dark eyes giving gleaming life to the explanation that darted off the tongue.

Steps taken during the next fortnight of October seemed to confirm the unity and purposefulness of the League. On the 11th, a Committee of Coordination was created to consider and co-ordinate the measures which the members (and other countries that might join them) might severally take in order to carry out their obligations. Quick decision could not be expected of so large a body. It therefore created a smaller group which became known as the Committee of Eighteen, to consider, recommend, and guide the use of sanctions. A proposal was made that this group be named "The Committee on Initiative." When Switzerland and Argentina hesitated to accept place upon a committee so purposefully named, the proposal was dropped. Laval suggested that it be called "The Little Committee." The dangers of any official christening were apparently judged to be too keen. For it appears in the official records of the League merely as the "Committee of Eighteen."

The anonymity was useful either for a good deed or a bad one. The chairmanship of the several committees

concerned with sanctions was allotted to representatives of small powers who could only tend, not direct, the machinery. The method adopted throughout the controversy was for the Committee of Eighteen to frame proposals for the decision of the Committee of Coordination subject to guidance by the Council. This machinery of joint action started as soon as it was fueled with will power. It ran just as far as the fuel lasted, then stopped; and, thereafter, except for some doleful whistles intended to call attention to its existence, remained stationary.

The first product of its operation was an agreement to prohibit the export of arms to Italy. Great Britain had already done so. The United States had stopped sales of arms to both belligerents.

The Italian government, warned that this was to be followed almost immediately by other moves, at once tried to divide the members of the League. It prohibited the importation into Italy of one hundred and twenty-eight commodities except under license. The calculation behind this measure was that some members might be deterred from voting further sanctions by fear of losing trade, while other members might be attracted to the support of Italy by hope of gaining trade. The Italian government, as will be recounted later, attempted to influence the American government in a similar way.

But the Committee of Coordination proceeded to approve four other proposals of significance.

The first of these was an agreement to refuse *loans or credits* to the Italian government or Italian enterprise. This was not voted without qualms and reservations on the part of certain countries and groups that had extensive financial dealings with Italy. The Swiss representative, for example, asked and secured assurance that his

country would not be obligated thereunder to cease payment on international loans.

The second of the proposals was the imposition of a ban by members on all *imports* of Italian origin. This measure was certain to create difficulties for importers of some Italian raw materials, and also be costly to some commercial interests. Its importance lay in the fact that if Italy ceased to secure the means to buy abroad its power to carry on a war would be impaired. Italian reserves of gold in foreign exchange were not great enough to sustain, unaided and unreplenished, a long difficult war. The record was later to show that, though this sanction was put into effect only by some of Italy's customers and only for a short time, a serious shrinkage in Italian gold reserves resulted.

The third of the proposals was the imposition of a ban by members on the *export* to Italy of selected goods. These were few in number but composed a considerable percentage of Italy's ordinary import trade. The list contained mainly raw materials of obvious use in war, such as rubber and minerals. Horses and mules, so useful in carrying an army across the deserts and hills of Africa, were included. The selection was restricted to products that Italy had in the past imported mainly from those members of the League whose co-operation seemed certain. It was judged inexpedient to prohibit *then* the sale of goods which Italy might be able to procure from countries that were not members of the League, or even from certain countries within the League that might not join in the sanction.

This decision was crucial. The committee had two choices: one was to shut off *all* goods of use to Italy in war, irrespective of their usual origin. The other was to

restrict the list to products the supply of which could be controlled by reliable members of the League until doubtful participants gave evidence of their attitude. The committee took the second choice. Thus, oil, cotton, copper, coal, and iron ore were not placed upon the list; nor were the types of machinery and machine tools that are used in shipyards and munitions plants. The continued sale of these articles to Italy was permitted.

The fourth proposal was an undertaking by the League members to give each other *mutual economic assistance* in order to minimize and equalize the economic losses they would incur from applying sanctions against Italy. The burden of prospective economic loss as a consequence of sanctions fell very unequally. Certain small countries, such as Rumania and Yugoslavia, would under a sustained and effective sanctions program sacrifice a substantial part of their total trade; this loss would be all the more bitter because unfriendly rivals that did not join in sanctions would benefit—particularly Austria and Hungary. It proved far from a simple task to devise even preliminary arrangements for mutual aid. The trade of all countries was depressed. All governments were perplexed to find the ways in which they might arrange for the purchase of products that would be taken out of the stream of trade with Italy. The Italian dictator counted upon the distress of traders to make governments tire of acting as guardian to him.

This program of four sanctions was measured by its authors as one that would give Italy serious pause, but yet not strike the dictator so forcibly that he would be compelled to choose between capitulation or war against the League.

Members were given until November 1 to indicate

their decision in regard to bringing this program of sanctions into effect. Before adjourning, on October 19, the Coordination Committee instructed the Committee of Eighteen

“to continue in session to follow the execution of the proposals . . . as they may think advisable to make before the Coordination Committee or the governments represented thereon.”

It also arranged to try to extract, as delicately as possible, from nonmember states information as to what help or hindrance the member states might encounter in putting the program into effect. The United States and Germany were the great unknowns.

## V

# BUT THE BARGAINING WITH MUSSOLINI CONTINUES



THE members of the League had marched up Sanction Hill like a poorly-trained company of draftees in dangerous enemy territory. Some small countries felt the strain and were afraid of coming to an exhausted stop. Some were suspicious of the boldness with which the USSR advocated a forward march, wondering if they might not have misguessed their route. The two countries, Great Britain and France, who felt they carried the heaviest packs, did not greatly mind the weight that at the moment rested on their backs. But they feared that beyond this march might lie a more dangerous one. And they did not enjoy each other's companionship.

Thus even as it marched, the League looked backward. It did not drop its dual procedure. Even while the sanctions program was being devised, the Council encouraged further French and British efforts to end the dispute by conciliation. Laval, in long conversations with Mussolini's ambassador in Paris, sedulously incubated new terms that might satisfy his appetite for the time being. A subtle and sinuous political brokerage went on continuously between Paris, London, and Rome.

Even now, it is impossible to be certain of the proposals that were exchanged. The blinds of secrecy have not yet been fully lifted. Laval remained determined to preserve

against all injury his military agreement with Mussolini. He seemed more troubled by the movement of British naval vessels around the Mediterranean and Malta than by the advance of the Italian Army. He took it to mean a disposition to stop Italy whether or not France lagged. He urged Great Britain to withdraw its fleet from the Mediterranean. He refused the British request that France undertake to provide naval aid in the event that Italy attacked as a consequence of applying sanctions. The British government, however, was of no mind to face Italy alone.

Both governments feared what Germany might do, no matter what they did. If they quarreled, Germany would know how to make use of their disagreement. But on what were they to agree? If they agreed to stand up against Italy, Hitler might gain a new ally. If they agreed to do nothing their countries would become small in men's eyes, and Hitler might still gain a new ally.

Great Britain and France never found a way out of this miserable maze. For a while, they managed to achieve a reconciliation between their separate current anxieties. The British government promised to send a message to Mussolini informing him that it did not intend any action beyond what might be authorized by the League. In view of the influence which France possessed in the League's decisions, this message satisfied Laval. Mussolini, in turn knew that French influence in the League would be used to protect him. Laval rewarded the British government by a promise of assistance in the event of an Italian attack on condition that the British Fleet would be used only in accord with, or to carry out the decisions of, the League.

But the portent of this chiseled exchange of guarded vows was not understood by the enthusiasts whose



thoughts centered on Geneva. Thus, they enjoyed a spell of confident faith as the League proceeded during October and November to put into effect its four point sanctions program. They felt that at long last the nations of the world were ready to combine to enforce an international standard of justice. That dream of professors, preachers, and poets was about to be realized.

## VI

### WASHINGTON: AN IMPORTANT STATION IN THE CIRCUIT OF INDECISION



**D**URING this whole period—in which Italian aggression was prepared and begun—Washington was an important station in the circuit of indecision. It is time to take account of what had been occurring there.

To the Italian dictator the American course was of the utmost importance. He seems to have felt assured that the mistrust pervading the relations between the states of Europe would prevent collective action to check him, unless some outside power bolstered the attempt. There was only one country strong enough and free enough to turn the balance of events against him, if it so willed—the United States.

The peoples of Europe prayed that the Americans would provide the supporting strength to defend them against the demanding threats that issued from Rome and Berlin. Over all the roads of Europe apparitions appeared at dawn and night—of dirty, haggard men in muddy uniforms limping towards the trenches, of exhausted and frightened women and children trudging out of destroyed towns. To the imaginative, the throats of Mussolini and Hitler poured forth not human words, but mud and lice and pieces of bloody flesh.

The governments of Europe did not give way to such

fantasies or tremors. But as they probed to see how much they could rely on one another in any joint effort to check Mussolini, they peered in the direction of the United States. They knew the state of American opinion well enough to realize that the United States would not keep in regular step with them. They accepted the evidence that the American people were bent upon believing that European quarrels were of little concern to them and beyond their power to reconcile. They responded to intimations that if openly asked to act with the League, the American government would look the other way. But as soon as the League began to consider ways and means of halting Italian aggression, two most practical questions arose in regard to American policy: First, if economic sanctions were applied, would the United States render them futile by supplying economic aid to Italy? Second, if as an outcome of the use of sanctions, Italy attacked members of the League, would the United States be an indifferent and difficult neutral, a benevolent friend, or an ally?

The League members were left to the end to guess the full answers to these questions. They were compelled by use of the telescope to discern what they could from obscure actions and smoky explanations.

During the summer months of 1935, when Italian intentions were becoming obvious, neither the American people nor the American government were moved to take any step that might seriously deter Mussolini. Many Americans sensed uneasily that deadly evil was being given a new passport into the world. But the country as a whole either misunderstood or evaded the coming crisis. We restricted ourselves to some half measures gauged, at one and the same time, to absolve us of any

charge of defeating collective action and lessen the chance of being drawn into dispute with any belligerent. A wish to avoid responsibility, rather than any positive will to play a part in defeating aggression, governed our swaying policy.

The request, made in July by the Ethiopian government that we invoke the pact of Paris against Italy, had met only sympathetic evasion. The State Department, during the following week, pursued a conventional diplomatic course. In various ways it made plain to the Italian government that it was disturbed by the dangerous drift of events. It dwelt upon the rewards and virtues of peace and urged Italy to be moderate. But at the same time it discreetly took care to see that the foreign offices of Great Britain and France did not misinterpret these *démarches*. Ways were found to make sure that they were not to be taken as a promise that we would take positive action or an encouragement for a new attempt to draw us into joint responsibility.

While the failure of the League at mediation was becoming plain, the President on July 24 responded to intensely active agitation throughout the country. He asked Congress to consider "neutrality" legislation. A few days thereafter (July 26), he lapsed into the remark that the Italo-Ethiopian dispute was not of direct concern to the United States. On August 1, he expressed the hope that the Council of the League would succeed in settling the issues that had arisen. This wish could have been met as well by a settlement that gave in to Italy as by a firm refusal to do so. These actions were expressions of a transient half belief that the United States might wisely pursue an isolated course—no matter who gained power and mastery elsewhere.

But they also suited a purpose. That was to keep control of the making of foreign policy in the face of an effort, within Congress and outside, to impose upon the Executive rigid rules of isolation, amounting almost to nonintercourse. It was feared that any overt measure of encouragement to the League to repress Italy would strengthen the position of the advocates of isolation.

It was deemed certain that any action that aligned the United States with the League, even before it was known whether Great Britain and France would defend the principles of the League, would provoke a bitter internal conflict. In their earlier days, many of the officials that were now compelled to decide how to act in this crisis of aggression had witnessed closely the failure and death of Woodrow Wilson. The popular mood seemed far more averse to any venture in co-operation than in 1919. They were afraid of repeating his failure.

Several groups in Congress vied with each other in order to secure the credit for the new policy of peace. The Senate Committee on Foreign Relations, the House Committee on Foreign Affairs, and the group of extreme isolationists led by Nye and Clarke, each sprang forward with a program designed to keep us clear of foreign strife. All refused to admit that the American people had an earnest concern with any foreign dispute, or a possible great interest in its outcome. It was as though they thought there could be no rights or wrongs of consequence to us outside the Western Hemisphere, no purpose ever in taking up arms, no hope of trustful co-operation between nations.

The Senators in their visits to the White House met no opposition to their plans for the enactment of some new form of neutrality legislation. The Secretary of State and

some of his staff smouldered with doubt in regard to what was underway. But this was permitted to appear only as a faint glow. The Senate combinations seemed strong enough to defeat any Secretary of State on this question, and, if his opposition was vigorous, to destroy him. Therefore, such powers of persuasion as he possessed were gently employed towards trying to obtain in the prospective legislation some discretion for the Executive. But that is exactly what the extreme and powerful isolationist and anti-British wing of the Senate was determined to deny.

Congress passed and the President signed the Neutrality Resolution in August 1935 while the League was permitting Italy to complete its military measures. The timing of our action was influenced by discernment that Italy was about to break the world's peace; and that the League would either have to knuckle down or to fight. In either event, embarrassing difficulties were foreseen—which, it was thought, might be “shooed” away by *prior* proclamation of our isolation.

Despite the enthusiastic furor with which the Neutrality Resolution was rushed through Congress, a sense remained in many minds that the subject had not been thoroughly considered. Therefore, it was made effective only until February 29, 1936. This temporary legislation was counted upon by its advocates to guarantee the good behavior of the President during the prospective recess of Congress.

## VII

### THE UNITED STATES TAKES REFUGE IN "NEUTRALITY" LEGISLATION



THE Neutrality Resolution made it mandatory upon the President, on finding that a state of war existed, to prohibit the sale or export of "arms, ammunition, and implements of war" to all belligerents. Americans were left free to trade in all other products—including many no less essential for war. The dividing line was arbitrary. It reflected the fact that not even the isolationist Senators were ready to push their theory of peace to the point where it might seriously disturb American economic life.

The actual substance of the Neutrality Resolution had little immediate importance. Its passage, nevertheless, had great significance. For it seemed to reveal what the American attitude would be toward the critical issues that were shaping up in the Italo-Ethiopian dispute. It seemed to mean, first, that if foreign countries found themselves at war—whether in support of their obligations as members of the League or in self-defense—they could not count upon the United States to supply weapons. And second, if they refused, as a sanction, to trade with the aggressor, it was doubtful whether the United States would do the same. In that case, the whole idea of economic sanctions grew hollow; only blockade could prevail, and that meant war.

True, this was a hasty interpretation of the ultimate

significance of the passage of the resolution; palmistry, rather than penetration. But only those with deep insight into the intelligence and moral nature of the American people could have been expected to dispute it. Ironically this interpretation was longer maintained in Berlin than in London; it contributed to fatal German misjudgment of the ultimate American course.

The passage of the Neutrality Resolution dampened the spirit of resistance to Mussolini. As reported by Birchell in the *New York Times* of August 26, the resolution "disappointed and even discouraged many here (London) who had hoped for United States cooperation in compelling the truculent to keep the peace. Coming during a period when the League members were wavering between their conciliation efforts and proposals to apply collective punitive action to Italy, it must have justified doubt in those circles of European government, as to the wisdom or significance of such punitive action."

But it is also certain that the action of the American government was not the main reason for the hesitation of the League. Almost none of its members were ready to fight Italy.

A strong element in British opinion clamored for collective action. But many of its public advocates seemed to infer that this form of action was a sort of magical prescription that would safely and painlessly dispose of any evil-doer. They seemed to think that condemnatory words, if hurled in unison, would halt dictators. Few spokesmen asked their fellow countrymen bluntly if they were willing, if need should be, to go to war against the Blackshirts. And the British military establishment, even its navy, was unready for immediate action. Nervousness seems to have entered even into the paneled rooms of the



admiralty. The mementos of past valor and victories did not entirely dissipate fear that the Italian fleet might be able to gain control over the eastern Mediterranean and the direct route to India. Or if that fear was dismissed, the thought was left that a damaged fleet might someday soon have to deal with a stronger enemy. In the Foreign Office there was a great reluctance to smash the Stresa front, which had been formed against Germany by such hard diplomatic labors. The hope lingered that Italy might be retained as a useful ally.

And France was resisting all suggestion of pressure on Italy with a firmness that aroused mistrust, as well it might. The government of Laval showed itself determined to avoid any quarrel with Italy that would rupture their relations. He was prepared, if need be, to sacrifice the League in favor of his understanding with Mussolini. French opinion was wavering and divided. There were many—especially among the Left parties—who were devoted believers in the cause of the League, friends of all that was humane, and enemies of all that was cruel. But they were mostly men skilled only in the argument and appeal of the classroom or political meetings; they had not yet lived in the maquis and been toughened to the use of arms; and they did not control French opinion or their government. Fear of Germany reconciled many Frenchmen to Laval's open effort to serve Mussolini; fear of Russia brought approval from many others; fear of again experiencing the dreadful sorrow and suffering of war, most of all. Laval could warn that there would be civil war in France if that country was called upon to fight Italy. His opponents could not threaten that there would be civil war if the League bowed before Fascism.

This was the main gambit of doubt and deception that

kept England wavering and France evasive. It was why they and the other countries of Europe failed to form a quick and effective combination in the League to halt Italy. However, each item of doubt gained extra weight because of the judgment that the United States would either stand aside, or even make such an attempt more difficult and dangerous. The passage of the Neutrality Resolution confirmed that possibility.

In the interval between the passage of the Neutrality Resolution and the Italian invasion of Ethiopia, American policy continued to be as elusive as notes dancing in air. The Italian proclamations of defiance were becoming noisier and noisier. Reports on the tangled talks between the British and French governments produced complete uncertainty in Washington as to what to expect at Geneva. The American government supplemented the confusion of counsel in Europe by diffuse and inconclusive explanations of its own. The Secretary of State on September 12 circulated a detailed account of the record of the American government, vis-à-vis the Italian-Ethiopian dispute. This was intended both as a defense for our policy and an indirect means of renewing our plea that peace should not be broken. Its long explanations left only a sense of emptiness. It did not affect the course of events in any way. Nor did the repetition of the plea for peace which was made by the President on the following day.

The vague utterances were disregarded. The American multigraph machine failed. Hoping it knew not what, the American government waited for the next event. It waited uneasily. For the perception that only collective action could really safeguard future peace for the United States, though dismissed, would not quit the mind. A

vague realization that the outcome of the League crisis would affect our future would not fade.

Alas, when the wait was ended by the Italian invasion of Ethiopia on October 3, it was succeeded only by a greater agony of indecision.

## VIII

### THE GREAT AGONY OF INDECISION



WE had missed any chance decisively to influence events before the crisis. We had remained aloof while they shaped into an Italian threat not only against Ethiopia but against the whole League system. Then on the very eve of the clash we merely issued a statement urging all countries to support economic and world peace. Its inchoate stream of language seemed to suggest that the ultimate causes of the episode were economic and that if only trade barriers were removed, the aggressive pressure for political change would vanish. It was as though we thought that by holding up high the scales of abstract justice disputants would come into court and bring their sins with them. Circumstances of the moment did not justify the thought.

Now events began to compel the government to move from the court of comment to the field of decision. Of the many aspects of the problem before the American government only one was clear. It was agreed by all that the President was bound to recognize that war had come and apply the Neutrality Resolution. But the problem arose as to when to do so. Italy had issued no declaration of war; that country was still hoping that the world would shut its ears to the noise of exploding bombs. The League of Nations was in a state of pause. Should the American government be the first to affirm that war

existed? There was room for query as to what immediate consequences might flow from that formal action. Would it make it more difficult for Italy to draw back? Would it embarrass last-minute efforts of the League to halt the fighting by conciliation?

Behind these perplexities lay further ones. If the government applied the Neutrality Resolution and did nothing more, how might the later conduct of Italy and the League be affected? Would this step be taken to mean that we intended otherwise to ignore the Italian aggression, to give up all thought of dealing with it? Would this be a true reading of what the country might later decide to do? The executive was in no position to encourage hope that we would help effectively in any joint effort to stop Italy, but most Americans were ready to applaud the efforts of other countries to do so. Would an unsupplemented announcement of American neutrality give reluctant members of the League an acceptable reason for inaction? Would it enable them to place the blame for failure of the League upon the United States?

The government craved a course of action that would be without consequence on external events. It wished for a line that could neither be attacked as calculated encouragement to the League to proceed with sanctions against Italy, nor used by unwilling members of the League as an excuse for not doing so. The lawyers of the State Department labored to supply a garment of formulas within which we could shrink.

Their task was made more difficult by the knowledge that Congress would insist that we deal with *all* belligerents on the same terms. Suppose the executive action went outside the Neutrality Resolution and tried, for example, to repress the flow of American war materials to Italy.

Would it find itself driven to deny them also to England and France, if these countries found themselves at war with Italy?

The meetings of disturbed officials during the days that followed the invasion of Ethiopia were a convention hall of these queries. Every single one of them paraded around under its own banner. The President was away from Washington. Views had to be discussed over the telephone and telegraph when he could be reached.

On the one point that was clear, decision was prompt. The President and the Secretary of State concluded to recognize that war existed without waiting for the League to do so, and to place the mandatory provisions of the Neutrality Resolution into effect. It was their plain duty under the law so to act. The possibility that this precedent might later be regretted would have to be disregarded. Immediate application of the resolution had still another attraction to minds caught in a multiple spray of cold doubt; it would serve as a proof of the contention that had been carefully maintained by the State Department that American action was independent of that of other nations.

This decision was made in the face of an urgent plea of the American Minister at Geneva to delay. He was opposed to an American declaration that war existed before the Council of the League affirmed it. He feared the stain of responsibility on our cuff if we moved our hand first.

During the days of October 4 and 5, when the proclamations were being prepared, forecasts in Washington of what the Council might decide to do were scant and confused. The British government was in the direct line of

conflict. Thus, when the proclamations were ready, it was thought a reasonable precaution and courtesy to afford it a chance to object to their immediate issuance. No objection was made.

The President proceeded to declare that "a state of war unhappily exists between Ethiopia and the Kingdom of Italy." One proclamation was issued prohibiting shipment of arms, ammunition, and implements of war to the belligerents. Another requested American citizens not to travel on the ships of belligerents and stated that if they did so it was at their own risk.

In announcing this action, and in all later expositions of our course throughout the episode, the State Department emphasized that they were taken in entire independence of other countries. Any suggestion that heed was being taken of events at Geneva was indignantly denied; any contention that it was our duty to prevent Italian aggression was answered with silence. The country was repeatedly informed that the government had but one thought or aim—to "keep out of war."

This explanation of the basis of our policy was irritating to all except those American officials who were in the center of the buffeting storm. It was immune from direct objection. It conformed to the prevailing American opinion that joint action with other countries would "involve" us in war. It made it possible to avoid a debate that would almost certainly have been lost; whether or not the security and welfare of the United States demanded a concert of action with foreign powers.

Here in this Ethiopian dispute were born the verbal formulas that were used to explain and defend many important actions of the Executive during the troubled years ahead—first, that they were independently con-

ceived and taken, and second, that they were designed solely to keep the United States out of war. By their use it was possible for American diplomacy to achieve a measure of freedom from the restraints of ignorance and lethargy. But they failed ever to direct the full force of American influence or power to prevent developments that made war inevitable. Friends were left without assurance. Foes could form the belief that the American instinct for greatness, hatred of evil, and shrewdness had lapsed. But the bitter unwillingness of American opinion to mingle in foreign disputes exacted from their leaders this insufficient and misleading version of the realities they had to take into account.

Hauling up this confused and confusing banner, then, in the summer of 1935, we marched towards events.



## IX

### THE VACUUM BEYOND THE NEUTRALITY PROCLAMATIONS



THE issuance of the neutrality proclamation, it was soon perceived, did not dispose of the main problems that confronted us. What were we going to do about our ordinary trade and financial dealings with Italy? How were we to behave if the League applied sanctions against Italy?

The clauses of the Neutrality Resolution did not permit the government to forget in peace. We had preserved our undiluted freedom of action and with it the responsibility of deciding how to act. During all the later demoralizing months during which Mussolini wrested a victory from a fearful League, the worry never passed as to what next to do.

To those who felt Italy in the wrong, the issuance of the neutrality proclamation seemed unfair and humiliating. To those who attached importance to the Pact of Paris and to those who felt that the world was doomed to war if the League failed in this crisis, it was a bitter error. And the troubling possibility remained that if the League should take decisive action against Italy while the United States maintained its usual trade relations, we should become in the world's eyes the destroyer of the League and the ally of Italy. But whenever such thoughts began to

course within the State Department they smashed against the breakwater erected by American opinion. Who was to judge whether it was composed of rubble! The Department was under instruction by Congress to take no step that the United States might have to defend by arms.

There was always present, also, the troubling thought that any American initiative might end in cruel deception. The performance of the League thus far had been weak, not strong; evasive, not direct. Mussolini's swagger had been tolerated and his maneuvers blandly overlooked. Haile Selassie's eloquent pleas had been received as an embarrassment. Laval was still busily trying to contrive a bargain and his talents were not to be despised. The other members of the League seemed grateful rather than angry for his willingness to practice his trade. If we should step forward, would we meet in the night Mussolini and Laval walking arm in arm?

All these thoughts went round and round in the whirlpool of the State Department conferences. There is little point in reviewing now the various proposals that for a brief time were weighed and then discarded. One toward which the President strongly leaned for a brief time was that the American government should discourage trade with Italy by announcing that it would publish the names of all those who transacted it. The effectiveness of this would have rested on a sense of wrong-doing that many Americans did not feel. It would have placed upon the conscience of the individual citizen a duty that was more properly that of the government. The Secretary of State was of the opinion that the same end might be better achieved by appeal rather than by threat. The idea of a general appeal to the American people to cease *all* trade

with the participants was almost acted upon. But it was judged subject to the same defects as the "black-list" idea.

The Secretary of State did not, during this period of indecision, receive much encouragement to be bold either from his staff or from his diplomatic representatives abroad. They were lost in bewilderment, to which the Economic Adviser contributed his appropriate share. The warnings of the kindly and elderly ex-member of Congress who, as Counsellor within the Department, reported the opinion and wishes of that body had great weight in critical discussions. He always advised against any stroke that might provoke the group that placed the Neutrality Resolution on the books. (Not long afterwards his amiable wish to go along with the views of old friends on the Hill contributed towards the easy consent of the Department to an amendment to the Neutrality Resolution that prevented the sale of arms to the Spanish government. The deep amiability with which the judge had moved through life made it impossible for him to grasp what was afoot.)

The warnings of the American Minister at Geneva also strengthened caution. He had made his career in the tradition that rejected the League. None except the few Far Eastern specialists whose eyes were focused on Japan argued for bold, and if necessary, defiant leadership.

Thus the only *immediate* step taken by the American government after the invasion (in addition to the neutrality proclamations) was the issue of a Presidential statement on October 5 that any Americans who engaged in transactions of any character with either belligerent did so at their own risk. The hopeful read into this statement a clue for the League—an indication that if it im-

posed sanctions the President would try to see that American trading activities did not destroy their effectiveness. It was too weak a step, however, to reassure any but the hopeful. It accepted no obligation, applied no legal restraints. As a promise, its value was small.

## X

### IN WASHINGTON: WHILE THE LEAGUE DEBATED SANCTIONS



ON October 11, as recounted, the Committee of Co-ordination began to consider actively whether and what sanctions to apply against Italy. From then on the American government had to reckon with a serious possibility that the members of the League, or most of them, might jointly sever their financial and trade relations with Italy. The necessity of stating American policy more definitely became more pressing, the dilemma more nagging. The American government could not merely shuffle its feet.

Thus harried, the officials of the State Department were in session clustered about the Secretary's desk for long hours during each of the October days. The leaves fell off the trees outside the room and left the outlines of the trees bare. But no season of wisdom similarly exposed the essentials of the problem inside the room. Individual views of what was wise and possible differed greatly.

The Secretary of State remained certain that any further action taken by the United States would have to be framed independently of the League, and if possible, taken before Geneva dealt with the same situation. A few months later, in connection with the renewal of the Neutrality Resolution, he reverted to this feature of his policy in the following words:

"It came to our attention that abnormal quantities of prime essential war materials . . . were going to belligerents. . . . When we faced that condition, I want to say that the idea that we were working with, or talking with, or thinking about any other country, or any other group of countries, who had entirely different ideas and different plans for dealing with this war situation did not come into our minds." <sup>5</sup>

Accordingly, discreet steps were taken to have the Secretary-General of the League understand that this government would prefer not to be invited to participate in its discussion of sanctions, or to be directly queried in regard to our prospective course. The League complied until it had completed and put up to its members for final decision the four sanction proposals. Inquiry was deferred until October 22.

During this critical fortnight of October in which the Committee of Coordination was putting together the items of a program that might have meant the birth of an international defense against war, we mumbled our views with measured vagueness.

The Italian Foreign Office warned our Embassy at Rome that if the American government took any measures which placed the United States on the side of Great Britain, Italy would retaliate. The Embassy received and transmitted the warning with a solemn air that suggested that it should not be disregarded. It was coupled with an attempt at bribery. In New York, the Italian Commercial Attaché gave out an impudent press release suggesting that the League program of sanctions gave the United States a precious opportunity to increase its trade with Italy.

The Secretary of State took occasion to inform the

<sup>5</sup> Senate Document 3474—74th Congress, 2nd Session, page 41.

press on October 11 that our program thus far (especially the President's statement that trade with participants was entirely a private risk) "certainly was not intended to encourage transactions with the belligerents." He supplemented this gentle irony by adding further,

"Our people might well realize that the universal state of business uncertainty and suspense on account of the war is seriously handicapping business between all countries, and that the sooner the war is terminated, the sooner the restoration and stabilization of business in all parts of the world, which is infinitely more important than trade with the belligerents, will be brought about. This speedy restoration of more full and stable trade conditions and relations among the nations is by far the most profitable objective for our people to visualize, in contrast with such risky and temporary trade as they might maintain with belligerent nations."

There was renewed thought in the White House of the possibility of broadening the list of products that might be regarded as falling within the scope of the language of the Neutrality Resolution, and of publishing the names of those who traded with Italy. The State Department encouraged neither of these steps. It continued treading water. An attempt was made by circular cable to the chief diplomatic missions abroad to convince everyone within hearing that the United States had made a consistent and vigorous effort to preserve the peace of the world. This was taken to be merely standard diplomatic sorcery.

The League inquiry in regard to our intentions, received on October 22, was considerably phrased. It merely communicated an account of the measures proposed by the Committee on Coordination (the four sanctions) and remarked that it would welcome informa-

tion as to any measures the United States might be planning to take. It took the State Department several days to compose a reply which said nothing that had not been said before. Toynbee has characterized it for history "as non-committal in effect as it was friendly in tone." It related the measures already taken by the United States and reiterated that "the course thus pursued . . . represents the independent and affirmative policy of the Government of the United States and indicates its purpose not to be drawn into the war and its desires not to contribute to a prolongation of the war." It gave no indication as to what further steps we might take in the event that the League put into effect the four sanctions that were under consideration, or encountered a graver crisis.

Any inner urge that the draftsmen may have had to contribute more positively to the suppression of Italy remained subdued and confused. It was subdued by the current clamor throughout the country that the government take no risk that might lead us into conflict. It was confused by reports that Anglo-French discussions with Italy, sponsored by the Council might be verging toward a proposal Mussolini would accept. The current utterances of the British Secretary of State for Foreign Affairs contained a faint, elusive intimation that the British government might not insist upon a dogmatically rigid interpretation of the League Covenant. The exchanges that were taking place between the French and British Governments in regard to joint naval defense put Laval in a position to control the action of the League. Such signs of the wavering in western Europe to take up the banner quickened fear in Washington of paying tribute to it.

Thus, the League members had to decide at the beginning of November whether or not to put the first four



sanctions into effect—and even more critically whether to extend them—with only vague clues as to what the United States would do. Our official utterances colored but did not light up the atmosphere.

The vague clues had to be picked out of the statements of American policy that the President and Secretary of State diffused through the press during the closing days of October. These were appeals to renounce war trade since, it was said, such trade might involve us in difficulty. The appeals were sharpened by intimations that those who ignored them might be exposed as enemies of the peace. When quizzed by the newspaper correspondents as to whether these statements were intended to discourage *all* trade with Italy, *or only trade in excess of normal*, the Secretary of State, on October 31, would not clarify his intention.

The pleas for voluntary abstention may have truly represented our wish not to be drawn into dispute with members of the League if they applied sanctions to Italy. They may also have expressed our conscience. But they were not a firm promise to share in or back up those who might translate our inclinations into action. They failed to impart daring to the League committees that were called upon to decide whether to ban exports to Italy of such vital products as oil, coal, iron, and steel. Nor did they create certainty that such a ban would be effective enough to compel Italy to yield. Oil, among other raw materials, was at the time moving from the United States to Italy and to its armed forces in far greater than usual amounts.<sup>6</sup>

The President, it must be recalled, had no legal power

<sup>6</sup>The detailed figures, not fully published before, have been brought together in a Supplementary Note, page 304.

to control trade with Italy in raw materials. It was doubtful whether he or the Secretary of State wished to possess such power unless given discretion in its employment. Congress would not grant such discretion. The League Members accepted our explanation of this situation—some with a sigh, others like France, with relief that they were not to be forced to go along with drastic measures. The League refrained from seeking a more conclusive definition of our policy. It could not have been had.

## XI

### BACK IN GENEVA : WAS ITALY TO HAVE OIL ?



ON November 1 the *bise* swept unpleasantly over the wet streets of Geneva. The members of the Coordination Committee shivered as they hurried to the meeting summoned to express their common will to act together in defense of the Covenant. Forty members of the League had already indicated that they were ready to place the four economic sanctions into force. The committee now formally confirmed this intention; it arranged that members would place them in effect simultaneously on November 18.

The committee recognized that these sanctions would not prevent Italy from completing the conquest of Ethiopia. Thought turned at once to the selection of additional measures that might have conclusive effect—without heavy economic cost to all.

Account had to be taken of the fact that the United States was not the only country whose policy was shrouded in uncertainty. The German government was permitting the League to believe that it would take no steps to increase trade with Italy, but a trap was suspected. Austria had refused to accept even the first proposals. The Schuschnigg government had decided in the autumn of 1935 "in favor of stacking the whole future of the regime upon the maintenance of the Italian protec-

torate.”<sup>7</sup> Hungary had made plain that it would help, not oppose, Italy “with a gesture of truculence and almost with an air of glee.”<sup>8</sup> Switzerland, with expressions of its sincere intentions and explanations of its difficulties, seemed to desire permission to maintain more or less normal trade with Italy. Brazil had informed the League in substance that it would act according to its pleasure. And Venezuela concealed its inability to make a decision by replying that it would have to graduate its share of sanctions according to the possibilities open to it; that country was a possible important source of crude oil for Italy via German refineries. Of what might be expected of France the other members of the League had nothing but somber suspicions.

The Committee of Eighteen attacked the next and more dangerous hill on the horizon with vigor despite these defections. It formulated, for submission to governments, a proposal that became known as 4A, which read as follows:

“It is expedient that the measures of embargo provided for in Proposal 4 should be extended to the following articles as soon as the conditions necessary to render this extension effective have been realized:

*Petroleum and its derivatives, by-products and residues*

*Pig iron, iron and steel, etc.*

*Coal and coke, etc.*

“If the replies received by the Committee to the present proposal and the information at its disposal warrant it, the Committee of Eighteen will propose to governments a date for bringing into force the measures mentioned above.”

There was one exciting interruption of the deferential respect that the experienced members of the committee

<sup>7</sup> Toynbee, op. cit., p. 89.

<sup>8</sup> Ibid.

paid to each other's uncertainties. The Canadian representative proposed a text which would have committed the committee then and there to place Proposal 4A (oil included) into effect at the same time as those already voted. This suggestion traveled like a jet plane through the filtered air of the conference room. Before, however, the members were called upon to heed it, the Canadian government bluntly and publicly repudiated this call to action. It announced that the motion had been made without instruction, intimating that it was merely a reflex response to the company its representative kept at Geneva. That was a honorable possibility for a man who found the hesitation that ruled Geneva intolerable. The rebuke did not, it should be recorded, appear to injure his career.

The committee permitted a hush to fall over the episode. The pausing schedule of its work was resumed. Proposal 4A, in the form of a suspended suggestion, was on November 6, "accepted in principle." The chairman explained that the committee would have to present the proposal to governments and reserve "practical decisions" in regard to its application until responses were received. The committee adjourned with an understanding that they would be summoned to meet again towards the end of November.

But as the officials left for their capitals they knew that whether or not they were summoned back to put this proposal into effect would be decided in London and Paris. The longing to end the crisis by arranging a deal between aggressor and victim had not faded. Quite the contrary. On the same day that the Committee of Coordination had authorized the formulation of new sanctions, it had approved again, and with warmth, the con-

tinuation of the efforts of the French and British governments to work out a negotiated settlement. The British government, or so the impression was, was ready to be resolute against Mussolini if it was sure of reliable partners. The French government, and of this no one was in doubt, did not want to be resolute. It wanted only to be certain that its dealing with Mussolini would not leave it abandoned in the future; not even Laval relished the thought of standing alone with Mussolini. Or did he, even then, look forward to an agreement with Hitler? Were his notorious transactions of this period only preliminary in his mind to an arrangement by which France was to find safety in the shadow of National Socialism?

Laval had accompanied his consent to the agreement to submit Proposal 4A to the Members of the League by a plain notification of his real intention. He had announced to the Committee of Eighteen: "I shall stubbornly pursue my attempts—from which nothing will deter me—to seek for elements which might serve as a basis for negotiation," and added: "It is thus that I have initiated conversations, without the slightest intention, however, of putting the results in final shape outside the League." Hoare indicated his agreement with his French colleague in language unusual for its warmth if not for its trickery of meaning. "I have listened with great sympathy and full approval to the words uttered by Monsieur Laval." He then expanded upon his policy as follows:

"If the League is to retain its influence, collective action is inevitable. . . . On the one hand, as loyal members of the League, we feel it our bond and duty to carry out our obligations and to undertake the duty imposed upon us by the Covenant. On the other hand, we are under a no less insistent obligation to strive for a speedy and honourable settlement

of the controversy. . . . It is essential to act in the spirit of impartial justice to the three parties to the controversy—the League, Italy, and Ethiopia.”

The representatives of various other countries rose to express their appreciation and encouragement of the effort that these two statesmen were making to look in so many directions all at once. When this early November session of the Committee of Eighteen adjourned, with the powerful arms that might have struck still extended towards him, Mussolini probably felt he need only sustain his bold front a little longer, to win.

## XII

### LAVAL INVITES HOARE TO PARIS TO TALK ABOUT ETHIOPIA



THE replies of members regarding Proposal 4A begin to accumulate in the wooden tray on the right hand corner of the Secretary-General's desk. Most of them indicated a readiness to take the proposed step. A notice was dispatched convoking the Committee of Eighteen to a meeting on November 29.

Again it seemed as though the members of the League, and particularly Great Britain and France, could no longer avoid an outright choice between action and transparent evasion. Laval, however, managed to do so; a veteran of so many intrigues did not find it hard to upset so ridiculous a maneuver as this one—in which he now found himself compelled to participate. He informed the chairman of the Committee of Eighteen that a ministerial crisis in Paris would prevent his attendance on the day suggested, and requested postponement. The chairman, with British concurrence, deferred the day of decision until December 12.

There were reliable reports from Paris that Mussolini had threatened Laval that Italy would regard any interference with oil shipments as an unfriendly action and would quit the League. France and Great Britain were unwilling to risk the translation of this threat into action. Simultaneously, Mussolini professed a renewed interest



in discussing some form of compromise settlement. He guessed correctly that this gesture would be welcomed as a reason for postponing the clash. The diplomats resumed their search for a formula. After this demonstration that the French government, at least, still preferred to tunnel underground in Mussolini's direction rather than to fight him above ground, the Fascist leader must have felt certain of victory. All delay was precious to Mussolini. It enabled him to correct the mistakes and compensate for the poor performance of his army; it gave him time and opportunity to enlarge its size and improve the system of supply. And it gave him more time, which he put to good use, to increase his imports and stocks of petroleum.

During this fortnight—while judgment was suspended—officials of the French and British foreign offices completed their drafting of a new set of terms for the settlement of the dispute. They prepared for the deed that was to smash all concerted will among the Members of the League to proceed with sanctions. Proposal 4A, thereafter, was to become merely a mocking memento of a transient impulse to enforce justice.

When the actual event occurred on December 9, as will be recounted, it came as a shocking revelation to those who had failed to wear spectacles of suspicion when they read the past professions of its authors. How easy it was to be misled may be illustrated by passages from a debate held in the House of Commons on December 5, while officials of the French and British foreign offices were putting the finishing touches on the program for the dissection of Ethiopia. The wavering policy of the Baldwin government was that day subjected to frontal attack.

Hugh Dalton, previously Under Secretary for Foreign Affairs in the Labour Government, declared:

"We are not carrying out that section of Article XVI. There has been no immediateness and no totality in our action. Nor have we used our full power to persuade other nations themselves to move either immediately or totally to the fulfillment of their treaty obligations."

And, apropos of the defense that other nations were not living up to their obligations, he asserted that the USSR, Rumania, and Holland could be depended upon to act as loyal members of the League, and he pointed out that Italy could secure no oil from Austria, Hungary, or Switzerland. It could, however, he observed, obtain oil from British oil companies in the Middle East; in fact, he taunted, it was obtaining more than ordinary amounts from that source for the use of Italian forces fighting inside Ethiopia and for Italian ships that might fight the British Navy.

But the student is not likely to recall Dalton's speech out of the pages of Hansard primarily because of these unsparing accusations. The passage that clings to the mind is that in which, referring to the diplomatic discussions going on, Dalton said:

"The Foreign Secretary is going to Paris and is going to see M. Laval. I trust he will speak what I am sure is the mind of this country and tell M. Laval that this country is not favorable to, or even interested in, any terms of settlement of this war which will allow the Italian Dictator to profit by his aggression."

Sir Samuel Hoare was unperturbed both by the criticism and the advice. In combating the first, he remarked: "As to the economic pressure that is being applied to

Italy, I am glad to be able to tell the House that the League machinery is working well and that the member States are for the most part playing their part." He explained the postponement of decision in regard to petroleum in part by the necessity of deciding "whether the action of the non-member States will render ineffective the action of the member States." He informed the House that a further meeting to consider this subject was scheduled for the very near future and said: "When that meeting takes place, we shall be prepared to take our share in whatever collective action is determined." He dealt with the advice by chiding his suspicious critics for being "so foolish as to harbour suspicions that the French and ourselves are attempting to sidetrack the League and to impose upon the world a settlement which could not be accepted by the three parties to the dispute." It is awkward to quiz a Foreign Secretary in the House of Commons in regard to the exact meaning of the phrases he employs.

The Cabinet that rested upon these explanations had been returned to office less than a month before as fervid advocates of collective action to repress aggression. Reports of the election, however, agreed that the same voting public that expressed a strong wish for this policy also seemed insistent upon disarmament. Perhaps the majority of the English voters at the time did not appreciate that the conditions of Europe were such that the only kind of collective action which could prevent aggression was probably collective use of force; or perhaps they did know it, but left the expression of that gloomy fact to their leaders.

Almost immediately after this debate in the House of Commons, Hoare, on his way to Switzerland for a holi-

day, stopped in Paris to complete with M. Laval the new proposal to Mussolini. He was tired and ill of mind. The Prime Minister, who was his chief, seemed even more uncertain than himself as to how England's survival and honor might best be served. Whether Hoare carried written instructions or merely some mumbled words of guidance is not known.

Once in Paris, he spent the night and day which separated him from Switzerland in perfecting the text that was awaiting him and listening to Laval's plea that it meant peace for Europe. In the late afternoon he signed and rushed for the Gare de Lyon. To what extent the Foreign Secretary maintained touch during this final interval of talk with the Prime Minister of Britain remains unclear. The Prime Minister in the first debate, which took place after an aroused demand for rejection of the accord had made itself plain, gave the distinct impression that they had been out of touch and communication. He gave his auditors to understand that the actual text was unseen; in fact, he implied that its contents were unknown to him until he received a copy of the agreement in the diplomatic pouch. By that time Hoare had left Paris for the calm serenity of the Alps. He asserted that the Cabinet was not committed to proceed with the document that bore the name of the Foreign Secretary. All of this interpretation fitted in with the clearly shown wish of the Prime Minister to remain in office. Pierre Laval, in the testimony that he screamed out during the trial of Petain, found malicious opportunity to aver that the Foreign Secretary had been in close and continuous communication with the Prime Minister during the whole of the conversations. But Laval so often was an unscrupulous liar.

The Foreign Secretary gave up his office without revealing the main details in regard to the conduct of his mission. The character of his instructions, the things said in Paris that shaped his decision, the reasons why he felt authorized to sign a document and have it formally transmitted to the British diplomatic representatives in Rome and Addis Ababa—all these details of the historic capitulation to Mussolini remain unspecified. But this much is certain—that when the Prime Minister opened the envelope that contained the signed text, he held in his hand a document that made the triumph of Fascism over the League inevitable.

### XIII

## IN WASHINGTON AGAIN: INDIGNATION WITHOUT ACTION



THE American government had done nothing to avert the impending tragedy. During the unhappy circling around the scene of the crime that has just been traced, the governments that met at Geneva had been alert for any new signals from Washington. The American government was not unaware of that fact. It knew that the decision before the League, as to whether or not to put Proposal 4A into effect, would subject American policy to a crucial test. Therefore, throughout November, when it seemed that the League might, on any day, proceed with this extension of sanctions, the conferences in the State Department were resumed on full schedule.

The story that the Department of Commerce composed from its trade invoices was disturbing. It revealed that despite the various "moral" appeals that had been made, American exports of certain goods of greatest use to Italy was growing far beyond normal. This was true particularly of oil, scrap iron and steel, motor trucks, copper, engine-lathes, and gear cutting machinery.

The assignment was to prepare a brew that was neither too weak nor too strong, too clear nor too obscure. If it was too weak it might be charged that the abnormal flow of American trade condemned any League program of sanctions to futility in advance. Further, the stimulated

export of raw materials which might be easily transformed into weapons, made a travesty of that clause in the Neutrality Resolution which prohibited the export of arms. If, on the other hand, the brew was too strong, the United States might be held responsible for forcing the League into a crisis, even into war. If it was too clear, enemies could easily attack it. If it was too obscure, foreign governments could too easily construe it in whatever way suited them best.

The Secretary of State besought one and all for the magic recipe for policy. A squad of cooks hovered over the stove, advised and argued, found themselves in and out of employment. Samples were placed upon tongues renowned for their refined taste in diplomatic milk and vinegar; they were dropped upon tongues made sensitive by a craving desire for action; they were inserted against palates too jaded to be awakened.

The decision made—this was in the middle of November, while the responses of members to Proposal 4A were being awaited—was that the American government would merely inform the public of the increase in exports that had taken place and denounce this tendency as contrary to the policy and to the spirit of the Neutrality Act. Citizens and traders were left to figure out for themselves whether the government wished *all* exports of these products to Italy to stop, or merely “abnormal” exports. The answer could not be gathered with certainty from the several statements issued by the Secretary of State during the first half of November.

The character of these statements was, as before, influenced both by foreign and domestic signs. The reports in hand still did not encourage confidence in the determination of important League Members to proceed with

Proposal 4A. There was also some fear that, if we took a conclusive step which might influence the League significantly, Italy might retaliate against the United States; our Embassy at Rome seemed somberly worried over this possibility. Confidence was lacking that American opinion would support the government if such a quarrel with Italy took place; Italian minorities in Eastern cities were blackening the record of events at Geneva and pleading the Italian cause. Many members of the Senate were ready to pounce.

There was in the Department a thin hope, even as the fuzzy statements were issued, that public opinion might finally awaken to what was at issue, and demand further and more decisive action. This hope, however, fed largely upon itself. Officials could not find, either in the mail received at the State Department or in the press, evidence that public opinion was insistent upon more vigorous control of trade with Italy.<sup>9</sup> The ruling silence in regard

<sup>9</sup> The prevailing confusion was illustrated by the comment of Walter Lippmann in the *New York Herald Tribune* on December 7, 1935:

"The first thing to note about Secretary Hull's declaration is that it radically changed the rules of neutrality *after* Italy had gone to war and that it changed them radically to the disadvantage of Italy. . . .

"It seems to be clear that such a procedure is wholly inconsistent with the ideal and practice of neutrality. For it is known that in a war we may or may not be willing to sell necessary supplies, is it not obvious that by exercising that right to discriminate we make ourselves the arbiter of the balance of power? The United States is by all odds the largest reservoir of war supplies on the face of the earth; to open or close access to that reservoir after war has begun, or to have different rules for some wars than for others, means simply that at the discretion of the President the immense weight of the United States would be used to help one side or the other. . . . It would mean that since the United States reserved the right to discriminate and thus perhaps to decide the



to the Italian action was interrupted mainly by those who were hostile to the plans under discussion at Geneva.

Despite that fact dissatisfaction grew within the official circle as the day of final League decision grew near. A groping effort was renewed to find safe ways of indicating somewhat clearly to other nations that American exports to Italy would not be permitted to thwart the application of Proposal 4A.

Several ways were tried—none of them direct or irrevocable. The first move was in the form of a statement by the Secretary of the Interior. He was understood by the press to urge that producers keep the spirit and letter of the Neutrality Act by refusing to sell oil and other war munitions to the belligerents. Possibly because it was thought that the suggestion, as well as the source, would be coldly viewed in the State Department, it was made without previous consultation with that branch of the government. Whether some wink or nod had been given at the White House, the Economic Adviser could not tell.<sup>10</sup> Despite doubt that his remarks were authorized,

outcome of the war, the United States would be entangled at all times in one way or another in the shifting alignments of the European world. . . .

"These considerations are sufficient, it seems to me, to exclude as unwise and unpracticable a policy which would change the rules of neutrality after war is begun or just before it breaks out."

<sup>10</sup> The Secretary of the Interior kept public silence as to the meaning and authority for his suggestion until December 3—by which time the Secretary of State was explaining that the government was merely trying to prevent trade in excess of normal. Following upon a talk with the Secretary of State, the Secretary of the Interior issued a statement that, although the remarks he had made on November 21 had been in reply to a question about petroleum shipments, they had referred to "munitions of war" and that he had not intended to include oil in that category.

The Secretary of the Interior insisted that he had been mis-

they had effect. Various oil companies were quick to declare that they would accept no new orders to provide oil to Italy. Perplexed, the companies rushed to secure instruction from the State Department. There they were given subtly modulated responses that were intended to mean that we would be glad if all sales to Italy were suspended without having to say so. It still seemed important to avoid the charge both at home or in Rome that we were taking sides.

But Rome quickly indicated its belief that we were. It talked of retaliation to our Ambassador and sent the Italian Ambassador, on November 23, to approach the Secretary. In the interview that took place, the Ambassador asserted that our behavior assumed the meaning of a sanction and therefore had the positive character of an unfriendly act. The response evoked by this observation sent him out of the office with a look of surprise. Waving his arm, the better to locate the proper words, the Secretary gave vent to some of the feelings he had so long repressed in public. Denunciation, for once, replaced the mumbled argument on the subject that had filled so many of the conference hours.

The Italian Ambassador was informed in substance that the United States wished above all else to keep out of the war; that it was pursuing an independent course which it believed to be neutral; that this course differed in important features from the League policy; and that so

understood, that he had never marched forward and never retreated, but had always stood where he was. The Economic Adviser assumed that events in Geneva had had a clarifying effect on the Secretary of the Interior's understanding of his own remarks; and his intention turned out to be identical with the program that the State Department was explaining to its intimates among the press to have been its own policy all the time.

far it had been restrained—for example, we had not accepted the suggestion that the language of the Neutrality Act might be construed to authorize an embargo on such war materials as oil. Such was the formal argument by which the Italian formal accusation was rebutted. The rebuttal was followed by the reprimand. The Ambassador was reminded that we still were waiting for repayment of the loans that we had made to Italy to help her during the last war—while Italy instead was diverting vast sums to the Ethiopian venture. He was informed that the grounds of complaint of the Italian government were trivial in contrast to the problems and difficulties that its aggressive adventure created for us. What Italy was doing threatened the whole peaceable world. The Italian government had ignored our ardent pleas and now claimed as a matter of right that we must furnish it with supplies to carry on the war; a country that had violated solemn treaty obligations to keep the peace was demanding of us that, to remain neutral, we must furnish war supplies or be guilty of an unfriendly act. Such was the biting analysis to which Italian policy was subjected.

But it led to no immediate new action of consequence. And it was not circulated outside of diplomatic circles, which could be depended upon to diffuse it discreetly while reserving judgment as to whether it would be translated into action. The Economic Adviser urged at the time that the exchange of views be fully reported to the public. Those who thought such action unwise felt their caution justified by the events of the next fortnight. At this time the lack of consultation between the League and the American government may have decisively affected the course of history. But probably not; under the circumstances the League could not have wrung out of

Washington a firm and definite promise of support of a kind that would have prevented the signature of the Hoare-Laval accord.

The postponements of the meeting of the Committee of Eighteen scheduled for November 29 to decide whether or not to accept Proposal 4A sent a fresh spurt of doubt through the State Department. Rumors of the discussions between the French and British Foreign Offices and of Laval's animated activity, gave the delay an ominous meaning.

The short-lived impulse to be venturesome that had shown itself inside the State Department was weakened by fear of being proven silly. At the time, no official could expect to be praised for supporting the bold course though others deserted it. He could expect only to be smashed for having risked trouble in a futile effort to settle the affairs of Europe. Thus, as soon as these new signs of faltering appeared, the pressroom in the Department busied itself with new explanations. There was, it now labored to explain, only one single clear meaning in the ambiguities of the previous public statements; the American government was trying merely to prevent trade with the belligerents in war materials from growing *abnormally*. The continued conduct of a normal amount of trade was safe from reproach.

On December 4, while the League decision regarding the extension of the sanctions program remained still unsettled and the British fleet was being restrained behind a cable net of diplomacy, the American government turned its attention to the renewal of the Neutrality Resolution.

Such was the nature and posture of American policy when the Hoare-Laval Agreement was revealed.

## XIV

### THE TERMS OF CAPITULATION



WHILE Sir Samuel Hoare was crossing over to France on the channel steamer, Laval informed a diplomatic colleague that he hoped that very day to convince the British visitor that England must concede more to Italy. He sketched his views of the League program and of the outlook for Europe. The small nations, he predicted, would grow restless because of their loss of trade that sanctions caused. To extend them by including oil and other vital raw materials would, in his certain judgment, result in war. The danger facing France was great; it was ridiculous, he mocked, to believe that the League could assure French security; but if he could preserve the friendship with Italy and complete the treaty under discussion with the USSR, Germany could be kept in its place. Finally he asserted that further restraint on Italy might provoke civil war in France.

This train of pleading prediction was accepted by the uncertain British Secretary of State for Foreign Affairs. On December 8, he agreed to a document entitled, "Outline of an Agreed Settlement of the Italo-Ethiopian Conflict." The arrangement contained therein provided for an exchange of territory between Ethiopia and the Italian colonies in Africa—greatly to the advantage of Italy. Furthermore a great part of Ethiopia was to be brought under Italian rule in the guise of a "zone of economic

expansion and settlement." Great Britain and France undertook to try to obtain for Italy various *exclusive* economic privileges in the southern half of Ethiopia, including the right of settlement and the right to exploit its mineral, timber, and other resources. Ethiopia was to retain nominal political sovereignty over this area, but the Ethiopian administration was to become subject to a system of League controls in which, it was specified, Italian influence would be predominant.

The proposal could not be judged other than as a prelude to bringing the whole of Ethiopia under the control or rule of Italy.

The arrangements made between Hoare and Laval as to the manner in which this agreement was to be made effective have not been disclosed. Each had repeatedly stated that any proposals which they devised would be submitted to Ethiopia, Italy, and the League of Nations. The language used in these statements had caused them to be regarded as a promise that the whole membership of the League would be consulted before they were sponsored. But the conspirators now so managed their next steps so as to place Haile Selassie in a tragic dilemma, and to deprive other members of the League of any genuine chance to interfere with the execution of their plan. The French-British proposals were quickly transmitted to the British and French diplomatic representatives at Addis Ababa and Rome with instructions to do their utmost to secure acceptance.

The negotiators of the agreement must have foreseen that their program would prevent any extension of League sanctions. The troubling decision (Proposal 4A) that had been marked on the calendar for the following week would be postponed, no matter how their

proposal fared. If Mussolini refused, more time would have been required to decide what next to do in the crisis. If he accepted and Haile Selassie refused, it certainly would be easier to win approval for further postponement. And if both accepted, the proposal for a new sanction would lapse. Thus, the very act of formulating the new proposal was certain to demoralize or destroy the schedule of sanctions. The authors of the agreement, however, obstinately maintained that this was not their intention.

## XV

### THE AGREEMENT WAS REPUDIATED BUT THE LEAGUE WAS STRICKEN



**BUT** the diplomats that were to sway the rulers in Rome and Addis Ababa had barely time to read their instructions when they were repudiated by public opinion. News of the agreement, in all essentials correct, had appeared in the newspapers almost as soon as the ink was dry. The press obtained the information through unidentified sources. The current, and probably correct, surmise is that officials of the French Foreign Office who were opposed to Laval's policy gave it out.

Everywhere its terms produced astonishment and shock, despite the frequent and open professions that the French and British governments had made of their wish for a negotiated settlement. The millions in many lands who hated and feared the brutality and debasement by which Mussolini and Hitler extended their power felt the thrust of the knife. Even those who were not ready to risk war in order to protect Ethiopia felt the smirch of assisting in its downfall.

British judgment expressed itself first and most angrily. An emergency Cabinet meeting, summoned to meet in the afternoon of December 9, dispersed in disturbed division. Members of the House of Commons were faced by the angry assertions of their constituents that the party in power had acted in bad faith. The Prime Min-



ister was excitedly called upon to explain the transaction. He tried to do so (on December 10) in a bumbled effort made up in equal parts of obscurity and evasion. He threw a mantle of mystery over his brevity which has never been removed. "I shall," he said "speak for but a short time. I have seldom spoken with greater regret, for my lips are not yet unsealed. Were these troubles over I would make a case—and I guarantee that not a man would go in the lobby against me."

This first debate ended without any clear indication of whether or not the government would support or repudiate the action of the Foreign Secretary. The Foreign Office, apparently feeling that the fury of feeling would die down, proceeded to dispatch, above the signature of the absent Foreign Secretary, instructions to press for acceptance of the accord. The British Minister at Addis Ababa was told that the British and French governments had agreed to recommend acceptance of the plan and directed to use his "utmost influence to induce (the) Emperor to give careful and favorable consideration to these proposals and in no account lightly to reject them. . . ." <sup>11</sup> This was the first of many missions of humiliation that the dictators were to force upon the diplomats of Great Britain and France.

But the demand for repudiation became unmistakable. The Prime Minister was forced to bow before it, and to shift from evasion to apology. He continued to assert that the proposals had always been regarded by himself and his colleagues as "provisional"; he recalled that the prolonged conversations out of which they had emerged had received the warm encouragement of other members of the League; and he took cover again in the empty profes-

<sup>11</sup> Toynbee, *op. cit.*, p. 305.

sion that his government and the French government had intended to give effect to the agreement only if it were acceptable to all parties to the dispute.

But he found it expedient to yield to the opposition. In order to stay in office, he permitted Hoare to take the burden of the mistake upon himself and resign. At a later period Hoare was given employment as Ambassador to Spain with the assignment of persuading one of Mussolini's protégés not to follow Mussolini's plunge into war.

Hoare accompanied the announcement of his resignation with a defensive explanation—on December 19. "It seemed clear," he said,

"that, supposing an oil embargo were to be imposed and that the non-member States took effective part in it, the oil embargo might have such an effect upon the hostilities as to force their termination. . . . From all sides we received reports that no responsible government could disregard that Italy would regard the oil embargo as a military sanction or an act involving war against her."

He pointed out that as Foreign Secretary he had to take account of the fact that no country other than Great Britain had up to that time moved a ship, a machine, or a man to aid British forces in the event that Italy should attack them in the Mediterranean. He recounted that Laval was insistent upon continuing to arrive at a settlement with Italy before the League took any action that might produce a crisis, and said that he viewed French support in the event of a crisis as essential.

The publication of the agreement and the confusion it caused within many governments jolted the calendar of arrangements at Geneva. The French and British governments had to decide whether to lay the Hoare-Laval

Agreement before other League members despite the world-wide outburst of resentment. The other members had to decide what position to take if it was brought forward. The Committee of Eighteen met on December 12 as arranged before the agreement had been published. But it merely postponed discussion of the oil sanction on the ground that the League of Nations was faced with a political decision which should not be prejudiced by any action taken by the Committee of Eighteen. A week's adjournment was arranged.

During that week, the Baldwin government renounced the agreement. On December 18 Anthony Eden informed the Council that the British government did not continue to support or recommend it. Even Laval saw there was no chance of acceptance. The proposal died on the League's doorstep; it did not belong in its archives. The Council did not find it necessary to express any judgment on its life or demise.

## XVI

### THE WOUND WAS PROFOUND



THE failure of the Hoare-Laval attempt still left the League with the Ethiopian aggression on its table. The incident was a badge of humiliation that none of the representatives that met at Geneva wanted publicly to wear. But the longing to find a way out of the house of fear through the same corridor that Hoare and Laval had traveled remained in many hearts.

When the Committee of Eighteen resumed its meetings on January 21, the British government let it be known that it had received guarantees of armed support from France, Yugoslavia, Greece, and Turkey in the event of an attack by Italy in return for a reciprocal guarantee. The French guarantee, however, had been given only after assurance had been received from the British government that it would not "take any initiative in any measure against Italy which would not be in conformity with decisions taken or to be taken by the League in full agreement with France." There was still no way of knowing with certainty what the United States would do if firmness provoked a war crisis; the faith that the Great Britain of 1940 showed had still to be fanned by the winds of desperation and fed by American spokesmen such as Roosevelt and Willkie.

The representative of Great Britain now suggested that efforts at conciliation should be dropped. Laval, unshaken

in his course, insisted that they be renewed before sanctions were extended. Once again the afternoons of talk drooped into wordy emptiness. The impulse to risk miserable disturbance of all Europe and possible war for a cause that seemed almost lost, gave way.

The Committee of Eighteen resorted to a familiar substitute for decisive action. It appointed a technical subcommittee to report on the possible effectiveness of an oil embargo. French assent to this step was given only in return for the promise that the disposition of the report would be subject to the political judgment of governments. The deep wish to avoid direct clash with Italy was shown also in the treatment of other issues during this session of the committee. An Ethiopian request that the League establish a committee of inquiry to report on the illegal methods of warfare that it accused Italy of using was rejected. An Ethiopian request for financial help—needed to buy weapons and ammunition—was refused.

Now there remained only a technical subcommittee to bully. Through Virginio Gadya, that skilled hand at dressing the brutal intentions of Fascism in the garments of diplomatic logic, Mussolini served warning on this committee and those who might stand behind it. In the Italian view, he announced:

“The oil embargo is a manifest transition from economic sanctions to military ones. . . . This is the first step toward a blockade. A blockade is a military measure that will set military countermeasures in motion. In this event, an extension to Europe of the conflict which Mussolini has tried to confine to Africa will become a certainty.”

Mussolini supplemented this general notice by again privately advising the French government that, if the oil

sanction was employed, Italy would withdraw from the League and from the Treaty of Locarno. In this last threat, he struck at the center of the French fear.

The technical subcommittee carried out its assignment with calm expertitude. The main conclusion of its forthright report was that a *complete* embargo on shipments of oil to Italy would result in the exhaustion of Italian stocks in from three to three and one-half months. But, the committee emphasized, the effectiveness of any embargo by League states was subject to the movement of oil between the United States and Italy. As phrased in the report,

"In the event of such an embargo being applied by all states that are members of the Coordination Committee, it will be effective if the United States were to limit its exports to Italy to the normal levels of those exports prior to 1935. If such an embargo were applied by the states that are members of the Coordination Committee alone, the only effect it would have on Italy would be to render the purchase of petroleum more difficult and expensive."

When this expert report was submitted, the American Congress was engaged in arguing, in connection with the renewal of the Neutrality Resolution, whether or not to command or authorize the Executive to restrict commerce with all belligerents. Within the next fortnight it was decided not to do so. The renewed Resolution contained no provision for such action. But the early moral appeals that had been made to confine American trade to peacetime dimensions still hung in the air. A few days before the Committee of Eighteen convened (March 12) to consider the report of its technicians, the President renewed his appeal for voluntary self-restraint.

But by now few expected the committee to be guided

by the report. Shortly before the Italian armies had begun a new and decisive advance. The triumphant Italian communiqués were not on the agenda but were carefully weighed. Laval was no longer in the French government. Flandin took his place at the table. But the change made no difference. French policy remained the same. Thus, Flandin proposed that before the report on the subcommittee of experts was put into effect, another appeal should be made to the belligerents to put an end to the war on terms "within the League Covenant framework."

The unreality of this formula was evident, but none were prepared to replace it. The small eastern European states, like Yugoslavia, Poland, and Rumania, could not govern the conduct of the allies on whom they still counted for support in the event of conflict with Germany; any impulse that the USSR might have made to develop its consistent support of the sanctions program into an act of leadership was dulled by suspicion of its purposes. The British government still could not face the responsibility of forcing the issue with Italy in the absence of assured French support. Eden agreed to Flandin's suggestion but simultaneously announced:

"His Majesty's Government is in favor of the imposition of an oil embargo by the Members of the League, and is prepared to join in the early application of such a sanction if the other supplying and transporting States who are members of the League are prepared to do likewise."

The Committee of Eighteen thus tabled the experts' report while it dispatched another appeal to the belligerents to open armistice or peace negotiations "in the framework of the League and in the spirit of the Covenant."

The reply came not from Rome, but from Berlin. On

March 7, Hitler announced that German troops were on their way into the demilitarized zone of the Rhineland. This action violated both the Treaty of Versailles and the Treaty of Locarno. The countries that had been concerned with Italy now became wholly absorbed, as Toynbee has observed,

“in a new and more poignant preoccupation with Germany—and this at the very moment when in Africa Italy was on the verge of military victory and Abyssinia was in direst extremity.”

The Council of the League was immediately summoned into an extraordinary session, not to discuss Italian aggression in Ethiopia, but the German advance into the Rhineland. It found no way of bringing Germany to book. Those who enjoy the ironic will find a select morsel in the plaintive query that Flandin addressed to his fellow members of the Council.

“Is [he asked] such a method [the German movement into the Rhineland] compatible with the very notion of collective security, an expression which is meaningless if it does not express the confidence of each member in the undertakings entered into by the other, and the conviction that all the members will contribute to defend each one of them against the breach of its undertakings by another state? Is it likely to encourage the conclusion of fresh international agreements?”

Those who admire the impudent will find a choice morsel in the observations that Grandi, the Italian representative, made on the same occasion.

“Among the causes (of the present situation) is one which, in my opinion, is self-evident. I mean the weakening of the political bases of the Treaty of Locarno as a result of the de-



cisions and measures taken at Geneva in connection with the Italo-Ethiopian dispute, the injustice of which has been keenly felt by the Italian people."

The subsequent meetings of League agencies to consider the extension of the sanction program brought together men whose minds were without purpose. Italy was near the end of its battle in Ethiopia. There was no disposition in the face of that accomplished fact and the growing menace of Germany to take any new measures either to restrain Italy, to punish her, or to compel her to restore Ethiopian independence. The view spread that the sanctions that were being maintained against Italy were useless, politically unwise, and economically injurious. The impulse towards action was drowned in a pool of despond. The spring months of 1938 became a period of shabby waiting during which governments composed excuses for their failure.

The capital of Ethiopia fell to the triumphant Black Shirts on May 5. Mussolini was in possession of a promise from the French government that sanctions would be lifted when this occurred. That government exerted itself to make the promise good as soon as possible. The British did not oppose. On May 14, Prime Minister Baldwin observed: "Such sanctions are unlikely to succeed unless the countries are prepared to run the risk of war. . . ." Never did a historic tragedy have a duller epitaph. On June 5 Sir Samuel Hoare rejoined the Cabinet as First Lord of the Admiralty. On June 10, the Chancellor of the Exchequer, Neville Chamberlain, observed that in his opinion the maintenance of sanctions in order to preserve Ethiopian independence seemed "the very midsummer of

madness.”<sup>12</sup> On June 18, the British Secretary of State for Foreign Affairs took steps to bring this madness to an end, remarking: “There is no longer any utility in continuing these measures as a means of pressure on Italy.” On the following day Blum, the Prime Minister of France who had been elected by a Popular Front, expressed a similar judgment.

On July 6 it was decided that the sanctions should come to an end on July 15. The members of the League seemed joined in the sense that the least said about the experience the better. But a few indulged in reflections. The delegate of Haiti showed that he could condense history into a gardenia by observing that “Experience is a trophy of the arms by which we have been wounded.” Few realized how profound the wound was. The Chairman of the Coordination Committee, M. Vasconcellos of Portugal, tried to provide consolation in the concluding address:

“The great lesson would not have been wasted. It had been shown, by a general movement that surprised the whole world, that the collective spirit was a living reality and that, though economic and financial sanctions were (as had been foreseen) incapable of arresting the war-like advances of a great army, they nevertheless constituted a powerful weapon against the aggressor.”

But, alas, the collective spirit had not shown itself a living reality. The conception that had moved the founders of the League that nations would stand together to preserve and protect the security of each and all of them failed in this vital test. The ranks of those ready to stand

<sup>12</sup> The full remark made in the House of Commons was “That [a policy of continued sanctions] seems to me the very midsummer of madness. If we were to pursue it, it would lead only to further misfortune which would divert our minds as practical men from seeking other and better solutions.”

together was not complete, and some of them were badly compromised. The absentees were missed, the possible enemies were powerful.

The brutal Italian conquest was not checked; the deed was neither seriously hindered nor punished. The episode left each and every country in the world without security. For they had lost faith in one another.

## XVII

### THE UNITED STATES FALTERS INTO THE DEEP TUNNEL OF ISOLATION



THE behavior of the United States was of little importance during the period of dissolution at Geneva which has just been reviewed. But it contributed to the outcome and made it more excusable. And the final failure at Geneva left a permanent impression on American policy.

In the United States the Hoare-Laval incident caused a deep shock in the subsoil of the spirit, where the longing that nations might act justly had preserved itself. Only a faint mark was permitted to show on the surface of American official utterances. The caution that had been used in their formulation proved now to be a comfort to their authors; the assertion that American action had always been independent and governed solely by the wish to stay out of war was newly useful. If faith in the power of aspiring phrases flew out of the window, few openly mourned. If Americans decided that this country must prepare to ward off against the evil will that was making itself plain in Rome and Berlin, the conclusion expressed itself in action only after a long lag.

The enemies of the League claimed their proof that this organization was nothing but a lure for the United States. The supporters of Italy gloated. The isolationists in Congress felt refreshed for their next foray; from then on they talked to an even more responsive audience when

they preached the avoidance of entanglement with other nations. The advocates of rigid "neutrality" legislation became more convinced that they were on the right road to peace.

Thus, during the first two months of 1936, while the hand of the League turned for the last time towards the valve that might shut off oil to Italy and then drew back again, American debate ignored the situation. It centered on the terms of a new statute intended to establish a uniform rule of behavior towards all nations at war—for all the future.

The administration made an effort to assume leadership in the framing of this legislation with the thought that it might thereby retain a certain freedom of action. The legislative proposal that it sponsored (introduced into Congress by the Senator from Nevada, who was Chairman of the Committee on Foreign Relations, on January 8, 1936) would have given the President discretionary power to control the export to belligerents of "articles and materials used for war purposes" in excess of normal amounts. The President affirmed in an address of the same date that in wars that did not directly concern the Americas he would maintain a "twofold neutrality," (a) no sales of weapons and ammunitions to belligerents would be permitted; (b) he would seek to discourage the sale of any other products above and over peacetime exports if they served war purposes.

This was the offer, then, that the American government wished to put forward during the final period of faltering at Geneva. It would not cease to import from Italy as most of the League members had; it would not end all sales of war materials to Italy if the League members did. But it would, if Congress gave authorization, re-

strain American trade within ordinary limits, and so not undo what the League might still attempt to do. This was the weary compromise upon which the President and the Secretary of State fell back as the League was falling back. In doing so, the State Department disavowed any lingering aspiration for any other course. As expressed by the Counsellor of the Department in testimony before the Foreign Relations Committee on January 17, "The State Department has interred the aggressor theory."<sup>13</sup>

Only the stinging words with which the President lashed the dictatorships showed that the retreat could not leave at rest a spirit deeply immersed in the ideals of American justice and independence. The experienced politician who dealt with other possessors of political power and was confronted with caution and mistrust in every cable file expressed himself in the official recommendations. The youthful, aspiring figure that had been assistant Secretary of the Navy during the first struggle against Germany found expression to suit his just anger only in 1940. The words he then spoke to Mussolini—who had just sent his army into the prostrate land of the French, "The hand that held the dagger has stuck it in the back of its neighbor," must have long burned in the spirit.

Mussolini had little to fear from the proposals sponsored by the Executive but he squirmed with hatred at the words with which they were accompanied. The Italian press showed new talents in abuse. But, at the same time, the Italian Foreign Office apparently had the idea that any disapproval that the American people might feel of Italian conduct could be soothed by a chance to do more business. The officials of the State Department,

<sup>13</sup> Senate Document 3473, 74th Congress, 2nd Session, p. 100.

while still fingering cabled reports of Italian press abuse, received an offer from Italy to negotiate a new trade agreement with the United States. The memorandum that the Ambassador presented promised that Italy would grant to American exports full most-favored-nation treatment in the Italian market—a concession that up to that time had been stubbornly refused. The agreement would have made it easier for us to sell Italy products that members of the League were currently refusing to sell. In Rome, apparently, it had been concluded that both our dislike of Fascism and our lingering belief in the ideal of international co-operation would succumb to the chance to grab other nations' trade. The offer was put aside with irritated silence.

The proposals of the Executive regarding neutrality legislation were no more pleasing to the extreme group of isolationist senators. This group definitely opposed granting the Executive any discretion. The strength of the opposition to any policy that would make possible even indirect co-operation with the League was shown by a vote of the House Committee on Foreign Affairs on January 26. This Committee approved a clause to be inserted in the neutrality legislation which would have compelled the President, before curbing trade with any belligerent, to secure the revision of any commercial treaty that might be construed as banning such action. This meant acceptance of the argument of the supporters of Italy that any restriction of our trade with Italy was a violation of our treaty of commerce and amity with that country.

The advocates of direct co-operation with the League also found the Administration's proposals poor; for they

fell far short of the steps members of the League would have to take to be effective, and side-stepped responsibility if a graver crisis followed.

And, to complete the circle of dissent, supporters of the view that the United States should maintain and defend what they considered our rights, under international law, to carry on all ordinary commerce with belligerents, disliked the White House suggestions. They regarded voluntary restriction as stupid weakness.

In short, the proposed line of compromise pleased no one—not even its authors.

To recall the details of the legislative battle that dragged on through January and February 1936, while the Italian armies were advancing, would now serve no purpose except further to illustrate the confusion and division in the American judgment. The determined advocates, both inside and outside of Congress, of neutrality legislation thought they were engraving in stone. The State Department officials who found themselves engaged in shaping the phrases thought they were writing in ink—which might or might not fade. Only a small minority proclaimed with certainty that the law was being written in chalk which would be washed out in the next great rain.

It proved impossible to compose the jangled differences. Therefore Congress finally decided merely to extend—with two amendments—the life of the Neutrality Resolution for some fourteen months. The President signed the revised statute on February 29. This curtailed even the small measure of discretion he had possessed under the original resolution in regard to the sales of arms. He was placed under a mandatory command to extend the arms embargo to *additional* states if they became in-



volved in war. This meant that if Great Britain and other members of the League found themselves at war with Italy the United States would not sell them arms. The fatigued and demoralized committees at Geneva saw one more reason for not taking risks. This provision, it may be noted, was carried over into later neutrality legislation, where, no doubt, it figured pleasantly in the reckoning of Germany.

Thus the President was granted no legal authority to control trade with countries at war—except the trade in arms. But the League sanctions were still in force and Proposal 4A was still before the Committee of Eighteen. American sales of oil and similar products to Italy continued to exceed normal. With or without legal authority, it seemed necessary to renew the attempt to discourage them or suffer shame.

The President, therefore, upon signing the extension of the Neutrality Resolution, declared:

“It is true that the high moral duty urged on our people of restricting their exports of essential war materials to either belligerent to approximately the normal peacetime basis has not been the subject of legislation. Nevertheless, it is clear to me that greatly to exceed that basis, with the result of earning profits not possible during peace, and especially with the result of giving actual assistance in the carrying on of war, would serve to magnify the very evil of war which we seek to prevent. This being my view, I renew the appeal made last October to the American people that they so conduct their trade with belligerent nations that it cannot be said that they are seizing new opportunities for profit or that, by changing their peacetime trade, they are giving aid to the continuation of war.”

This was the last American attempt to restrain trade with Italy. Few of the readers of the President's words

believed that the sanctions program of the League would be maintained. To the Secretary of State the chapter seemed at its end, and any attempt to affect its ending pointless. So it proved—for the Committee of Eighteen at its subsequent meeting remained inert. Germany's resurgence soon dimmed American interest in the fate of Ethiopia. The American gaze followed Haile Selassie into exile, through the newsreels, as though he were a figure in a historical novel. Italy reduced its purchases of American oil as danger vanished.

Other questions regarding the behavior of the United States in the event that decisive sanctions had been employed remained unanswered to the end. If, in order to prevent the Italian forces from being supplied with oil from the United States or elsewhere, the League had supplemented sanctions by a blockade, would the United States have accepted that action passively? If Britain and France had closed the Suez Canal, would we have insisted on the right of American ships to traverse it? If the members of the League had found themselves at war with Italy (and perhaps Germany), would we have maintained our refusal to sell them arms?

The answers cannot be guessed. But it seems likely that, because of the confusion in American thinking and feeling during those days, and the caution of the officials who were contained in this confusion, we would have assumed no positive position. We would have been likely to argue and to reprimand, to have let trade continue but refused to protect it, to have pawed the air until some event took the power of decision out of our hands.

None of the teetering measures by which the United States weathered the Italian-Ethiopian episode could have been of much use in safeguarding our future national se-

curity. That could have been done only by participating in a collective effort to deal with Italian aggression. Had we done so, a union of forces between ourselves, Great Britain, France, and the USSR might have been born that even Hitler might have not been mad enough to challenge.

But where, in 1936, anywhere in the world, was there enough trust, understanding, and intelligence between nations to create that union of forces? Trust between the victors of the last war was gone. Quarrels and injustices, real or imagined, had destroyed understanding. Without these, intelligence became perverted. The fact that the security and independence of all countries devoted to peace and personal liberties could only be preserved if they stood together dropped out of sight. Life entered into a dark tunnel down which Goebbels launched his corrosive words.



CAN ALL THE KING'S HORSES . . . ?

+



## CAN ALL THE KING'S HORSES . . . ?

**G**UIDE the brush gently and yet these tales leave bleak regrets.

A rueful impression emerges that security without war was within the grasp of nations. It seems, now, that with a little more insight, trust, and courage, they might have constituted a scheme of order affording protection to them all. Prepared and united, they might have been able to induce or compel the Axis to stay within peaceful bounds—or at worst inflicted a quick defeat. Collective action, so directed, would not have been without difficulty and danger for each participant. Each would have had to accept some restraint on its own actions, to renounce some advantages, and to risk its fate for others.

But this impression—that the recent failure of peace was avoidable—may be an illusion; possible to entertain only because time has begun to dim the facts with which the governments of the peaceful nations had to contend.

Peoples failed; governments blundered; one after another the peaceful nations were forced into war—there to form the combination which they would not form before.

The United States shared in the faults and mistakes which spoiled the chances of gaining security without war.

Foremost among our mistakes was our refusal to join

with others in a program for the enforcement of peace. Without us other countries did not possess enough stamina, understanding, partnership, or, perhaps, even strength to deal with the issues that arose. The collapse of the rest of the world into fear and self-saving evasion, as revealed by Italo-Ethiopian episode, was the prelude to the struggle we were later compelled to enter.

Next was our failure early to see and squarely to face the fact that the programs of the Axis countries were certain to threaten our own security and position. We realized too late the evil and unbounded nature of their purposes. Our delay in showing our will to oppose them made greater the probability of an ultimate struggle.

And then even while we insisted upon our isolation, we did not make ourselves strong—in time to be feared by dictators. This made the enemies of peace more confident and reckless. They concluded that the United States would never be a serious opponent. Or in any event it permitted them to believe that our action would be too little and too late. Smaller and weaker countries found themselves the more easily excused for not joining in the opposition against the Axis.

For these errors of insight and faults of behavior the United States has greatly suffered and the consequences bring dejection into our present lives. Yet, in recall, they stir regret rather than angry denunciation. Because they sprang mainly from the better parts of our nature. In our choice of policies we were influenced (to the point of blindness) by sane and humane desires. Having little hatred of other countries, we found it difficult to believe that our defeated enemies would live on with so much hatred and be so evil. We had buoyed ourselves up, as our young men went off to Europe to fight in the First



World War, with the notion that it was a war to end war. We did not wish to accept the disappointment that it might not be. Our hearts had become centered on the hope that nations might be ready to discard or rigidly limit their arms. We cast our wishes and effort in the direction of world disarmament, and continued to do so long after there was any real chance that this was the route to peace.

The Economic Adviser asked himself what instruction can be drawn from the three episodes he had undertaken to write? What stimulant towards improvement could be drawn from the bleak book of knowledge? The first conclusion that suggested itself was disheartening. It was that the conditions shaping international relations have become harder to manage than they were before the war. All diplomats, he was sure, would support that conclusion though they might differ in their explanations of it.

Great powers (and many of the small) are badly split over the issues of peace and power left by the war—over division of conquered territories, boundaries, demands for spheres of control, and the like. These make nations hostile, distrustful, and distraught. How, this being so, can headway be made in the strengthening of joint arrangements for the maintenance of peace? Many of the differences are made worse by a clash of ideologies—sullen and hate-making. And it has become easier than before to spread disturbance without resorting to outright military attack. The dust of agitation and propaganda flies farther and faster than before. The independence of nations and the balance of fear and trust between nations, have both become more subject to indirect attack. This has created a sense of necessity within all the major

nations to battle for influence all the time, everywhere. It gives support to the wish of the great powers to secure control of outlying territories and bases.

The whole world thus lives with a sense of constant exposure to hostile influence. This is quickened with greater alarm because of the deathly character of the new weapons of war. The jet plane, the rocket projectile, and the atomic bomb have left all countries more exposed to attack. They seem to promise advantage to the ruthless, to offer better opportunities to any who may be ready to attack. This means, and of this the grim Economic Adviser is certain, that no diplomatic arrangement and no form of international organization can bring prolonged peace unless the production and use of these weapons are brought under drastic international control. No people will dare to be trustful as long as they may be destroyed by a brief rain from the clouds. The growing generation will not be able to live satisfactorily with the lurking image of the "supernatural mushroom" in its brain. Unless control is certain, control supported as completely by the whole world as against the plague, expect both old and young to be neurotic. Expect them to go to the devil in a desperate effort to forget the devil in wait.

In summary then, the countries that compose this world are involved in more numerous and worse disputes than at the end of the last war; they are more distracted by internal suffering and confusion; they are more exposed to each other's ill will; they are more nervously aggressive; and they are haunted by the power to destroy that science has placed in human hands.

But with these greater troubles there has also been born a much deeper wish to avoid war and stronger resolve to create a system that will maintain peace.

How under these conditions can the United States best direct its policy to make this wish and resolve effective?

First our own purposes must be unthreatening, our own behavior fair, and our own appreciation of the effect of American conduct on the safety of other countries, quick. We must not expect that they will take our intentions for granted any more than we take theirs.

Second, we should do our utmost to make the United Nations Organization effective and strong. Our part in that organization, and our attitude in the issues that come before it, should not be inflexible. We should not attempt to prevent every change in the present position or relations of nations. We must not permit our decisions to be dominated by the wish to protect our own power and influence—at the cost of perpetual suspicion and hostility.

The task of the United Nations will be to find the terms of fusion between the pressures of power and the ideals of law and justice. Therefore, it will be better if it does not become wedded to too many abstractions of purpose or doctrine.

The establishment of a lasting international order will ultimately require that the authority of the United Nations Organization to settle international disputes be strengthened. Its chief formal weakness lies in the veto right possessed by the large powers. The American government supported this reserved right as strongly as the other powers—not permitting it to dilute the buoyant plausibility of its public statements. Its existence assured an almost undivided support, an almost unanimous Senate. There was no hard debate over our responsibilities as in 1919—for we remained their exclusive judge. How friendly, how house-broken seemed this dove of peace,

how warm was the official tinting. And few could bear to say out loud that it was crippled.

There is a great inner temptation to urge that this veto right should be wholly extinguished, at once. But one thought makes judgment hesitate at this conclusion. Such a change might make war between the USSR and the other great powers less avoidable. It might be best to postpone that action, even if it were possible, until some of the more troublesome of the questions that now divide the powers are settled, perhaps somewhat unfairly, by compromise and the wear and tear of controversy. An effort should be made at once, however, to amend the pact by limiting the reserved veto right to issues of enforcement; all restraints on discussion and the formulation of judgment by the Security Council should be ended.

The USSR so far has opposed any and all suggestions to curtail the veto power. It has rejected all proposals that would extend collective right to control its action.

But ultimately the common rule of the many must be established over the will of any, or war will come again. If and when this step is taken it will involve great new responsibilities for the United States. We would have to school ourselves, if the desperate necessity should arise, to play our full part in the enforcement of the collective judgment. A well-directed international organization should never, if it can possibly be avoided without yielding to plainly unjust and dangerous demands, present its members with this choice. For it would in itself present the tragic opposite of the hope in which it was created.

Third, while we are trying to bring about a genuinely strong international society the United States should maintain a strong and well-equipped military force. It

should not again permit the belief to grow abroad that it is incapable or unwilling to fight for its freedom and security.

But even as we keep ourselves strong our primary aim should be to bring about a comprehensive international agreement that will make it possible to reduce our arms and renounce the independent use of them. This is a matter in which we must show ourselves bold. Provided an agreement can be arrived at which, in the words of the President and the Prime Minister contained "effective reciprocal and enforceable safeguards," this country should agree to place all work on atomic fission under international control. The achievement of such an arrangement between nations, the Economic Adviser believes, would mark the passage from international anarchy to international order. For to be truly satisfactory it would have to place the community of nations in a position to command, and if necessary subdue, any among them that broke its vows.

These are the scanty and brief assortment of thoughts with which the Economic Adviser found himself. Out of the mass of conjecture one fact stood clear. The immediate testing place of any conclusions of the kind would be in the relations between the USSR and the other large powers. How far would the USSR press its search for security, influence, territory? Was it destined by the nature of its regime to go forward with this search by means that sundered all the political relations of the past? Would it give true allegiance to the conceptions that shaped the United Nations pact; or in its secret heart would it pursue the belief that peace is only possible in a world composed of revolutionary communist

states? Would the other great powers admit Russian influence even where a reasonable case could be made—as in its demand for a decisive share in the control of the Straits to the Black Sea? Would they encourage and support every outworn, corrupt and conservative government in the world in an attempt to forge a feeble ring about the USSR? Would in time these struggles over power (often based on mistaken judgments of the true elements of power), be adjusted by common consent? Or would they continue to the point where Americans and others prefer a fight to the wearing test of their position and tranquility?

Lacking plainer answers to such questions as these the thoughts of the Economic Adviser refused to become fixed and positive. It was merely a kind of chanting in the face of a strong and uncharted wind.

**SUPPLEMENTARY NOTE**  
**FIVE STATISTICAL ANNEXES**





## SUPPLEMENTARY NOTE

### ON THE EFFECTIVENESS OF THE SANCTIONS EMPLOYED AGAINST ITALY, AND THE PART PLAYED BY AMERICAN TRADE

(1) Italy was distinctly vulnerable to economic sanctions. It was dependent upon foreign countries for many raw materials essential to the maintenance of its economic life and to the conduct and implements of war—among them oil, coal, copper, cotton, lead, nickel, chrome, tungsten, tin, and rubber. Furthermore, its capacity to manufacture the machinery needed in the munitions industries, to make armor steel and many instruments and parts of instruments used in modern warfare, was far less than would have been necessary in a sustained war against a strong enemy.

But the sanctions that were put into force did not seriously interfere with the Italian conquest of Ethiopia nor deeply disturb its economic life. They were neither universal, extensive, nor prolonged enough to do so.

(2) The four economic sanctions voted by the Committee of Eighteen were not universally put into force.

The record of the Members of the League was summarized by Litvinov on July 1, 1936, as follows: "Four members of the League, from the very beginning, refused to apply any sanctions whatever. One member of the League bordering on Italy refused to apply the most

effective sanction—namely, the prohibition of imports from Italy; while, of those countries which raised no objection in principle to sanctions, many did not in fact apply several of them, pleading constitutional difficulties, the necessity of ‘study,’ etc. Thus, even the embargo on arms was not applied by seven members of the League, financial measures by eight countries, and prohibition of imports from Italy by thirteen countries—that is, 25 per cent of the total membership of the League.”

No less important than the defections of the members of the League was the fact that three large countries—the United States, Germany, and Japan—were not members of the League and did not join in the sanctions program of the League.

The importance of American and German abstention from the ban on *importing* from Italy is indicated by the fact that, in 1934, the United States and Germany alone bought over 23 per cent of Italian exports. They continued, during the sanctions period, to purchase Italian goods in at least previous quantities. This, of course, lessened the rate at which Italian external purchasing power was drained; and therefore softened both the possible economic disturbance caused in Italy by this ban and lengthened the potential period of Italian power to carry on the war.

The nonparticipation of these important countries in the League program affected the measures taken to end the *export* of goods to Italy even more substantially. The effect was evident in several ways:

(a) The League had to recognize that, if non-member states continued to supply Italy with products that League members refused to supply, the ban would injure the countries applying sanctions rather than Italy. The

League concluded that it would be unsatisfactory to prevent the sale to Italy of products which Italy imported, or could import, in large or growing measure from countries not participating fully in the sanctions program. Or, as expressed by the Subcommittee on Economic Measures of the Committee of Eighteen on October 15, "When the Subcommittee came to study measures of embargo, it would soon be found that a number of the most important products were not entirely controlled by the States' Members of the League, and that, consequently, the latter would have at first only have been able to impose an embargo on a limited number of articles, the others being reserved until it was known whether the countries not members of the League, which were also producers, would consent to join the League Members."

The fact that countries that had not obligated themselves to participate in the League program were important or chief sources of world supply of oil, coal, cotton, and copper contributed to the hesitation of the League to shut off the flow of these vital raw materials to Italy.

(b) The failure of many countries to participate in the sanctions program increased the possibility that Italy would be able to substitute manufactured products for any raw materials that were being denied to it. Thus, if the League had prohibited the sale of iron ore and scrap iron, Italy might have been able to substitute manufactured iron and steel products. If the sale of copper metal had been prohibited, Italy might have been able to import brass tubes or strips. If the sale of cotton had been prohibited, Italy might have been able to substitute imported cloth.

This problem of substitution could only have been met by prohibiting the sale to Italy of manufactured prod-

ucts made from any raw material that was banned. But, and this is the point, countries not obligated to participate in the League program were exceedingly important sources of supply for virtually all manufactured products. This left a possibility not only of natural substitution of manufactured products for raw materials, but of contrived substitution. As the Canadian delegate pointed out at the October 15th meeting of the Subcommittee on Economic Measures of the Committee of Eighteen, "An embargo might be put on a very important raw material, and another country might buy that raw material, make it up into tools, and sell these to the country against which the embargo of the raw material had been placed. The greatest care must be taken to prevent such materials from being taken by a third state, worked up and sold to the belligerent country. Otherwise a sense of injustice would be created and the system might break down."

(c) The nonparticipation of some countries in the sanctions program increased the possibility that Italy could secure forbidden imports indirectly. These are often extremely hard to forestall. For example, Holland was obligated under treaty to sell coal to Germany; it might, in conformity with the sanctions program, both refuse to sell coal to Italy and secure a promise from Germany that the coal that Holland sent to Germany was not passed on to Italy; but the addition to German coal supplies derived from or through Holland would make it easier for Germany, a nonparticipant in the sanctions program, to increase its exports to Italy of coal produced in Germany.

The vexing problems of indirect trade led to the suggestion that the participating countries should ration their

exports to nonparticipating countries. It was feared, however, that such a measure would be resented, particularly by Germany and the United States.

In these and various other ways the fact that some countries were not participants in the sanctions program constrained the League in the formulation of the program, increased its hesitation to include many products, and lessened the hindering effect of the sanctions that were applied.

The lack of universality, in short, added to the risk that economic sanctions could only wound, not kill; and that the countries applying them would be obliged to resort to more severe and direct measures of force to achieve their purpose.

(3) Bearing these facts into account, it is of interest to review the effect on Italian trade of the two main sanctions employed: (a) the ban on the purchase of Italian exports; (b) the ban on the sale to Italy of certain goods. This will give only a rather superficial indicative measurement of the actual effect of the sanctions upon the Italian economy and war efforts. A more thorough investigation would require study of the substitution and adjustments made by Italy, the stocks accumulated, the effect upon the actual course of production, standard of living, and military operations.

The four critical months were November 1935 to February 1936, inclusive, for sanctions were only placed into effect in November and gradually began to lose effect in March.

The comparative size of *total Italian exports* in each of these four months as compared with the same month of

the preceding year is as follows (using the old gold dollar as the unit of valuation):

*Millions of Old Gold Dollars*<sup>1</sup>

November 1934—31.0	November 1935—32.0 To 69 countries
December 1934—30.5	December 1935—21.9 To 68 countries
January 1935—26.8	January 1936—15.2 To 67 countries
February 1935—27.7	February 1936—16.8 To 38 countries

It will be seen that, mainly because of the large amounts that were afloat and because the execution of various types of outstanding contracts was permitted at the commencement of sanctions, Italian exports were affected little during November 1935. An increasingly serious drop in the size of Italian export trade—approximately some forty per cent—took place in the following months. There is little doubt but that this sanction would have grown still more effective had it remained, with unimpaired authority, in prolonged force.

The imports from Italy of all countries that employed this sanction against Italy declined. German imports remained about what they had been in previous years. Austrian and Hungarian imports of Italian goods rose decidedly. Statistics of American imports are given in another section.

(4) The record of total *imports* into Italy during this four-months period was as follows:

<sup>1</sup> The figures given for the first three months include almost all of Italian trade; those for February 1936 are much less inclusive because of a lack of available information.

*Millions of Old Gold Dollars<sup>2</sup>*

November 1934—21.8	November 1935—26.0 From 69 countries
December 1934—21.9	December 1935—17.4 From 68 countries
January 1935—19.4	January 1936—10.1 From 67 countries
February 1935—19.7	February 1936—8.6 From 62 countries

During November 1935 Italian imports were abnormally great. This shows the heavy buying of war materials that Italy carried out before November. The effect of the ban on shipments to Italy did not become serious until January. By February 1936, Italian import trade had been reduced to less than half.

Statistics are not available for an analysis of the extent to which the decline in Italian imports consisted of those commodities which were banned by the League. The record seems to show that imports from Germany rose but little, imports from Austria and Hungary greatly.

(5) Trade with the United States was a substantial fraction of Italy's total trade. In 1933, the United States purchased 8.7 per cent of Italy's total exports; and in 1934, 7.4 per cent. In 1933 the United States provided 15.0 per cent of Italy's total imports; and in 1934, 12.5 per cent. Total American trade with Italy, and particularly with Italian Africa during 1935, the year in which League sanctions were initiated, was greater than either the year previous or the year following.

<sup>2</sup> The same statistical qualification applies to this table as the preceding one.

## SUPPLEMENTARY NOTE

*Total American Trade with Italy*

(Millions of Current Dollars)

	<i>Exports to Italy</i>	<i>Imports from Italy</i>
1934	64.6	35.7
1935	72.4	38.7
1936	59.0	40.3

*Total American Trade with Italian Africa*

(Thousands of Current Dollars)

	<i>Exports to I.A.</i>	<i>Imports from I.A.</i>
1934	276	213
1935	4558	214
1936	771	224

A clearer story is told by the record of trade conducted with Italy and the Italian colonies during the four critical months (October 1935-January 1936).

*American Exports to Italy*

(Thousands of Current Dollars)

Oct. 1934-6226	Oct. 1935-6529
Nov. 1934-8445	Nov. 1935-9125
Dec. 1934-4821	Dec. 1935-7944
Jan. 1935-6257	Jan. 1936-5420

Imports from Italy during these months also rose well above normal.

*American Imports from Italy*

(Thousands of Current Dollars)

Oct. 1934-2943	Oct. 1935-4401
Nov. 1934-4179	Nov. 1935-6108
Dec. 1934-5207	Dec. 1935-4740
Jan. 1935-2424	Jan. 1936-3170

The rise in exports to Italian Africa was concentrated in the second half of 1935 and plainly was for Italian military operations.



*Exports to Italian Africa*  
(Thousands of Current Dollars)

Aug. 1934—11	Aug. 1935—1704
Sept. 1934—29	Sept. 1935— 508
Oct. 1934—45	Oct. 1935— 363
Nov. 1934—18	Nov. 1935— 590
Dec. 1934— 4	Dec. 1935— 374
Jan. 1935—20	Jan. 1936— 22

The gradual decline after November may have been caused in part by the moral appeal of the American government.

(6) The experts at Geneva reached the conclusion that the one economic sanction most certain to check Italy would be to refuse to supply it with *petroleum and petroleum products*. The proposal to do so was the issue on which the League program faltered and failed. Always, when the subject was before the League, the question arose as to whether any such step would be defeated by the importation into Italy of oil procured in the United States and Venezuela. The United States government resorted to appeals to avoid an increase in petroleum shipments above previous peacetime amounts. How important a supplier Venezuela might have become no one could guess; throughout this period it was without a strongly established government; however, production of oil in Venezuela was controlled by American, English, or English-Dutch companies, and was refined outside of the country—mainly in the Netherlands East Indies.

On February 12, 1936, an Expert Subcommittee of the Committee of Eighteen reported upon the United States as a factor in the oil sanction question. The main points of its report were that, during 1931-4, the United States had

supplied on the average the following parts of Italy's total importation: of crude oil—14.9 per cent, of petrol—9.4 per cent, of fuel oil—3.5 per cent, of lubricating oil—48.3 per cent. Grouping all types of petroleum products together in terms of gross quantities, during 1934 the United States had supplied 6.4 per cent of total Italian imports, Rumania—32.2 per cent, the USSR—27.8 per cent, Latin America—17.4 per cent, Iran—10.3 per cent, other countries—5.9 per cent. It reported further that during the final months of 1935 and the beginning of 1936 American shipments of these products to Italy had grown far beyond their usual amounts. It estimated that a *total* embargo by all countries would result in an exhaustion of Italian stocks in something like three to three and one-half months.

It concluded that, if the embargo on oil shipments to Italy were applied by all member-states represented on the Committee of Coordination and the United States limited its exports to the normal prior to 1935, the ban would still be effective; Italy's ability to supply its needs would have been prolonged a month or so. But an unrestrained flow of oil from the United States could cause a ban by other suppliers to have little or no effectiveness.

The course of Italian imports of petroleum products was affected by the war and the sanctions as follows: Total Italian imports (excluding bunker oil bought by Italian ships in foreign ports) was around 3 million tons in 1934. It increased to 3.8 million tons in 1935; most of this increase took place during the fourth quarter of 1935, when the question of repressing Italy was before the League. Of the increase of 800 thousand tons, about 300

thousand represented an increase in imports from the United States.<sup>3</sup>

The average *monthly* average value of American exports of all petroleum products to *Italy* and *Italian Africa* during 1932-4 had been \$480,000. In October 1935, the United States exports to these points was \$1,084,000; in November 1935, \$1,684,000; in December 1935, \$2,674,000. Total American exports during these three months were \$5,442,000, as compared with \$6,062,000 during the whole of the year 1934. Included in our shipments during the last three months of 1935 was \$828,000 sent directly to Italian East Africa—that is, directly supplied for the use of the Italian Army and Navy and Merchant Marine.

American monthly shipments for 1936 were: During January—\$1,658,000; during February—\$1,798,000—then, in March, a decline to normal of \$663,000. The preceding figures do not include such shipments of American oil as may have found their way to Italy indirectly.

The growth of American sales of oil, which at the time was known to the public only vaguely, gave genuine ground for the fear that a League ban could not work without participation by the United States. The American officials who were working on this matter at the time had the impression that the increase of American oil shipments to Italy during the first months of sanctions reflected special orders that had been placed by Italy in the United States in preparation for the invasion of Ethiopia.

<sup>3</sup> See: W. H. Shepardson and W. O. Scroggs: *World Affairs in 1936*, p. 231. Supplies were also being delivered for the use of Italian forces at Suez, Port Said, Eritrea, and Djoubti. But these were largely made by the Anglo-Iranian and Royal Dutch-Shell Companies.

Then the later shipments were largely arranged for by new groups who were attracted into the trade by the chance to make money swiftly or a wish to support Italy. The large companies established in the trade conformed, on the whole, to the moral appeals that the government addressed; but new merchants and brokers were ready to seize any business that was going.

The record proves that profitable trade will cease only under command.

## ANNEX A

### PERMISSIBLE PERCENTAGES OF BASIC QUOTAS \*

<i>Year</i>	<i>1st Quarter</i>	<i>2nd Quarter</i>	<i>3rd Quarter</i>	<i>4th Quarter</i>
1934			100 July 90 Aug.-Sept.	80 Oct.-Nov. 70 Dec.
1935	75	(75) 70	(70) 65	(65) 60
1936	60	60	65	65
1937	(70) 75	(70) 80	(85) 90	90
1938	70	60	45	45
1939	50	50	(55) 60	(60) (70) 75
1940	80	80	(80) 85	(80) (85) 90
1941	100	100	100	120

\* Bracketed figures were quotas fixed but revised before being put into force.

The original basic quotas set for each of the controlled areas in the 1934 Agreement for year 1935 were as follows:

	<i>Long Tons</i>
Malaya	538,000
N.E.I.	400,000
Ceylon	79,000
Others	<u>101,500</u>
<i>Grand total</i>	1,118,500

The total basic quotas increased as follows from year to year:

	<i>Long Tons</i>
1935	1,118,500
1936	1,254,000
1937	1,208,500
1938	1,335,250
1939	1,519,000
1940	1,541,550
1941	1,554,000

## ANNEX B

### ACTUAL NET EXPORTS FROM CONTROLLED AREAS—COMPARED WITH PERMISSIBLE EXPORTS \*

(ooo of Long Tons)

<i>Year</i>	<i>Actual</i>	<i>Permissible</i>
1935	780	758
1936	797	793
1937	1,088	1,090
1938	779	752
1939	887	901
1940	1,285	1,291
1941	1,426	1,632

\* Derived from Table 5, Statistical Supplement, *History of Rubber Regulation 1934-1943*.

It will be observed that during 1941, actual exports were far less than authorized exports; observers agreed that maximum potential production in the controlled areas was about 1.5 million tons. Difficulties arising out of war conditions prevented its attainment.

# ANNEX C

## THE AMERICAN RUBBER POSITION YEAR BY YEAR

(Long Tons—Natural Crude Rubber)

Year	Net Imports into U. S. from all sources	American Consumption of Natural Rubber	American Private Stocks at Year End	U. S. Govt. Stocks at Year End *	Total U. S. Stocks at Year End	Afloat to all Destinations but mainly to U. S.	U. S. Production of Synthetic Rubber
1935	455,000	491,000	312,000		312,000	86,000	
1936	475,000	575,000	223,000		223,000	103,000	
1937	592,000	544,000	262,000		262,000	135,000	
1938	406,000	437,000	231,000		231,000	90,000	
1939	486,000	592,000	125,400		125,400	152,000	
1940	811,000	649,000	176,000	113,000	289,000	245,000	
1941	1,023,000	775,000	165,000	368,000	533,000		24,000
1942	271,000	376,000			422,000		234,000
1943	34,000	317,000			139,000		763,000
1944	98,000	144,000			96,000		900,000
1945					45,000		

\* Including barter rubber.

This statistical picture has been compiled from several sources, mainly from published and unpublished records of the United States government and the Rubber Manufacturers Association. For the earlier years the Table 9 of the Statistical Supplement in *The History of Rubber Regulation 1934-1943* provided a useful check.

## ANNEX D

### SIZE OF STOCKS OF NATURAL CRUDE RUBBER AND APPROXIMATE WORLD CONSUMPTION

(Long Tons)

Year	<i>Total World Stocks †</i>	<i>Total World Consumption</i>
June 1, 1934 *	726,000	
End 1935	645,000	940,000
1936	464,000	1,047,000
1937	532,000	1,104,000
1938	465,000	940,000
1939	359,000	1,107,000
1940	668,000	1,116,000
1941	950,000††	1,220,000

\* Beginning of enforcement of regulation of supply.

† This total includes rubber "afloat" which was usually about 100,000 tons before the outbreak of the war, and considerably greater thereafter.

†† Nov. 30, 1941.

Source: For all years except 1941, Tables 7, 8, and 9 in Statistical Supplement, *The History of Rubber Regulation 1934-1943*.



## ANNEX E

### TOTAL NET EXPORTS OF RUBBER FROM *ALL* PRODUCING AREAS

(*Long Tons*)

1935	830,000
1936	866,000
1937	1,166,000
1938	872,000
1939	990,000
1940	1,395,000
1941	1,500,000 (approx.)

Source: Table 3, Statistical Supplement, *The History of Rubber Regulation 1934-1943*.



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A NOTE ON THE TYPE IN WHICH  
THIS BOOK IS SET

*This book was set on the Linotype in Janson, a recutting made direct from the type cast from matrices made by Anton Janson some time between 1660 and 1687.*

*Of Janson's origin nothing is known. He may have been a relative of Justus Janson, a printer of Danish birth who practised in Leipzig from 1614 to 1635. Some time between 1657 and 1668 Anton Janson, a punch-cutter and type-founder, bought from the Leipzig printer Johann Erich Hahn the typefoundry which had formerly been a part of the printing house of M. Friedrich Lankisch. Janson's types were first shown in a specimen sheet issued at Leipzig about 1675. Janson's successor, and perhaps his son-in-law, Johann Karl Edling, issued a specimen sheet of Janson types in 1689. His heirs sold the Janson matrices in Holland to Wolfgang Dietrich Erhardt, of Leipzig.*

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